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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (—) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

Productive Absorption of the Labour force: an Ongoing Controversy

ECLAC *Economic Projections Centre*

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

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

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

I

ECLAC's assessment of the employment situation and its determinants

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

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

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

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

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

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

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

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

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

II

Assessment of the past history and future prospects of employment

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

The probable level of population growth was a first concern. Between 1950 and 1980 repeated analyses were made of the evolution of population growth and its spatial distribution. As a result, evidence was obtained of an acceleration in this growth, which —for the region as a whole— reached its peak in the 1960s at a level of close on 2.9% per annum. In some countries, however, this growth frequently exceeded 3% and the maximum was reached in many of them during the 1970s. This growth far exceeded the historical precedents of the central countries and constitutes one of the bases of the employment problem.

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

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

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

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

With the prevailing form of development, and certain hypotheses of distribution and external trade, it was possible to estimate the sectoral composition of the product and the productivity of the primary and secondary sectors that would correspond to a particular growth in income. Thus an "authentic" demand for employment was forecast in the primary and secondary sectors, which suggested a possible growth of underemployment instead of open unemployment in the urban sector; it was accepted that, in this case as was already happening in the agricultural sector, the redundant manpower would be absorbed through disguised underemployment, basically in services.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Secondly, the growth of employment in the service branches in question did not vary much between groups of countries. In the large countries it grew by 4%, in the medium-sized by 4.8% and in the small by 4.2%. Hence it is surprising that employment in services increased more in the group of countries in which the global product rose less and on the contrary grew less where global production improved the most. As a result of this anomaly the product per employed person in the medium-sized and small countries hardly increased at all between 1970 and 1980, whereas it grew by over 2% annually in the large countries.

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

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

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

IV
Conclusions

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

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

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

The findings of the population censuses held around 1980, which are now gradually being published, have enabled a deeper study to be made in this respect. Nonetheless, great caution is called for in the handling and interpretation of the categories of classification of manpower and economic activities used in the population censuses. Owing to the heterogeneity of production in Latin America an occupational category or an economic activity does not *per se* enable conclusions to be drawn as to the productive or spurious nature of an occupation, though this is feasible in the central countries, where there is more homogeneity.

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

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

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

cluded in each category are reasonably homogenous.

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

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

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

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Metropolization and tertiarization: structural distortions in Latin American development

*Aníbal Pinto**

One of the central aspects of development is the process whereby the penetration of technical progress into primary activities expels manpower, most of which has to be absorbed by urban economic activities. ECLAC has devoted attention to this question ever since its earliest documents were produced, and has been spurred by the interpretation of the difficulties attending the said process to much theoretical thinking and empirical research.

The author once again takes up the topic to stress two of its aspects: metropolitan gigantism and spurious tertiarization. These phenomena are expressions of a structural distortion in our economies, whose underlying cause is the unequal social distribution of the means of production, of power and of income, which shapes the structure of supply, the sectoral distribution of the labour force and the spatial location of the population.

The enormous difficulties placed by this structural distortion in the way of productive absorption of underemployed and unemployed manpower are aggravated by the present crisis, the high rate of population growth and the minimal absorption capacity of modern technology. Since the current possibilities of absorption in the metropolises are so slight, the occupational retention capacity of smaller nuclei and of agricultural activities must be increased, but that requires, *inter alia*, redistribution of land and priority resource reallocation, apart from new urban-rural patterns.

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Introduction

> "The invasion of Lima by people from the provinces began in silence; when the highways were opened it turned into a torrential flood. Indians, mestizos and landowners moved into Lima and left their towns and villages emptier or inactive, their life-blood ebbing away. In the capital Indians and mestizos endured (and are still enduring) a painful ordeal of initiation; dragging out existence in the squalor of the outlying districts, lightless, waterless and almost roofless, until they gradually 'found their feet' in the city, or gave a city touch to their amorphous settlements, *as they temselves became regular workers or employees.*" (J.M. Arguedas, 1950.) (The underlining is the present author's.)

This percipient and moving observation by a great Peruvian writer was recorded more than three decades ago. It was the time when, albeit in diverse degrees and with diverse characteristics, the phenomenon of rural migrations to the cities and particularly to the metropolitan nuclei began to assume a more visible and problematic guise. With the passage of the years, realities very different from those of the past have come to prevail in the structures of employment and production, in the size and nature of large cities, in rural-urban relations and in the agricultural sphere.

In the present notes the guiding thread will be constituted by these changes, which have indubitably been among the main factors influencing the transformation of the Latin American style of development.[1] In other words, it seems obvious that the changes in the structures of employment and production, in metropolitan concentration and in the relations between the agricultural and the urban world have had profound repercussions on income distribution, on the rate and pattern of growth and on external relations.

Furthermore, a long-term perspective has been adopted which covers the last two or three decades, as the case may be, disregarding, save for indispensable allusions, the interrelationships of the subject with the external situation and above all with the current in-

[1] A summarized and amended version of a document entitled *Transformaciones estructurales y estilos de desarrollo: anticipaciones, desvíos y opciones estratégicas* (RLAT 803/1), presented by the author at an ECLAC-FAO consultative meeting of experts on styles of development and agricultural policies (Consulta CEPAL-FAO de Expertos sobre Estilos de Desarrollo y Políticas Agrícolas, Santiago, Chile, 7 to 11 November 1983).

ternational crisis. The main reason was the need to narrow down an approach too broad in any case for the author's possiblilities, although another operative factor was the belief that many of the problems resuscitated, brought to light or posed by the external crisis were already present or brewing in the evolution of the previous period, as is true, for example, of visible or total unemployment.

A reminder must also be given of the limitations of any general reflection in view of the marked differences between countries, and all the more if attention is concentrated on structural traits. This is borne out by the background data presented. Nevertheless, it is hard to find any country that has not had to cope with one or other of the problems in question.

I

Trends in recent decades: Predictions and realities

If a glance is cast at development in recent decades it is tempting to compare some of its main elements with the predictions formulated in certain early studies by ECLAC and Dr. Prebisch (ECLA, 1950; Prebisch, 1973).

Although the main gist of those analyses concerns the centre-periphery system and industrialization, they have been from the outset indissolubly linked with the nature and implications of the penetration of technical progress into primary activities and determined by that process. This can be seen in the argument devoloped in the documents cited, to which reference is made in a recent study (Pinto, 1983). The chain of reasoning is as follows:

i) In outward-directed development "technical progress only affected small sectors of the vast population as it usually only penetrated where it was needed to produce foodstuffs and raw materials at low cost for delivery to the great industrial centres...

ii) "As modern technique increases productivity, a surplus of labour, no longer needed by agriculture, is created. It then becomes the task of industry and other activities to absorb this labour productively. ... As technique improves and fewer people are needed to obtain more primary products, the surplus of gainfully employed population, together with the natural increase, become employed in industry, transport and trade, as a logical consequence of the expanding markets and specialization and diversification of production. ... There is an increase in the demand for certain personal services; furthermore, the State, as its functions expand, absorbs an increasing proportion of the additional real income and also of the gainfully employed population.

iii) "Hence, agricultural improvement and industrial development are two aspects of the problem of economic development. ... Just as the development of industry, transport and trade, as well as services, needs the labour which is no longer necessary to primary production, the latter in its turn could not expand further without a corresponding development of these other activities" (ECLA, 1950).

1. *Latin America's experience: affinities and deviations*

How far and in what way has the development of Latin America followed the general pattern inspired by the paradigm of European capitalist development and by certain changes and relations which undoubtedly can be generalized where technical progress spreads?

A first bird's-eye view might suggest that —in broad outline— events more or less closely followed the course foreseen, particularly where the diversification of production, spontaneous, intentional or enforced industrialization, and increasing urbanization gradually created fitting circumstances for the absorption of the labour force no longer needed in primary activities and offered it new opportunities which attracted it to

the cities. As time went by, however, this process and its affinity with the reference model petered out. Long before the present crisis, and from many different angles, critical voices had begun to cast doubt on the predicted sequences and relations and to denounce irregularities and divergences which were shaping other very different and censurable situations. Thus there was an emergence or recrudescence of motives of concern that have become predominant in the last 20 years: among them, income distribution; the "insufficient dynamism" of the system; the shortage of employment, urban marginality and disguised unemployment; land tenure and the peasant problem; external dependence and pertinacious structural heterogeneity.

For the purpose of these notes, what is of interest is the fact that the labour force displaced from the primary sectors, plus the manpower existing in the metropolises themselves, seems to have far exceeded the productive absorption capacity of the secondary and tertiary sectors and of the urban nuclei where the migratory flow and population growth have been concentrated. Accordingly, with the mammoth size of the principal cities has come to be associated a phenomenon of spurious tertiarization, especially in unskilled services or in various kinds of underemployment or informal occupations. Moreover, the rural-urban population shifts would seem to have had little significance as regards improving the socio-economic status of agricultural activities or reducing disparities in productivity in relation to the other sectors and within the rural sphere itself. On the other hand, what does stand out is the loss of relative importance of the agricultural product and employment in agriculture, despite food shortages and the insufficiency of employment opportunities in other fields.

The economist Pedro Vuscovic, analysing the pattern of urban-rural relations resulting from these changes, concluded in an important study that there are no other societies today —and never have been any in the history of capitalism— which have come to show urban-rural, countryside-town relations such as those that have grown up in Latin America; with so marked a differentiation in the levels of living and ways of life, in the patterns of consumption of the respective populations; and also with so extreme a concentration in a single great urban centre, of disproportionate size in relation to the total rural population, a characteristic which means that account must be taken of the relations not only between countryside and town but also between the great metropolis and the smaller urban centres: metropolises which in some cases attain colossal dimensions, even in comparison with the larger urban centres in the most advanced capitalist world (Vuscovic, 1981).

2. *Metropolitan expansion*

In analysing the phenomenon of metropolization it is as well to explain that the term carries a pejorative undertone only in respect of two clearly identified situations, which may or may not coincide: that of the big city which becomes —in everyday language— unmanageable, almost inlivable-in, or simply inefficient, viewed from the angle of economies of agglomeration; and that of a main centre, also very large, which instead of irradiating its progress throughout its peripheral areas, has an inhibiting or deleterious effect on them or simply neglects them, thus affecting national integration and the desirable degree of national homogeneity. In other words, there is no question of prejudices, either anti-city or even against the largest centres, since the benefits attaching to these are manifold; but it is not hard to imagine turning-points whence the balance becomes increasingly negative. Suffice it to say that any Latin American of my generation has seen with his own eyes the transformation of cities which two or three decades ago were hospitable and attractive, and which today are labouring under the well-known evils of metropolitan congestion and deterioration.

The high growth rates of the urban population and the considerable percentage of it that is settled in the principal city are the most striking figures recorded, particularly if those showing the relevant situations in the industrialized countries, whether capitalist or socialist, are borne in mind (see table 1). Even in places where urban expansion was more moderate in the period 1960-1980 (as in Argentina and Uruguay) or more spread out (as in Brazil or Colombia), excessive concentration in the dominant nucleus is to be found, or gigantism of the principal metropolis (for example, São Paulo or Bogotá).

With reference to this subject, Sergio Boisier

Table 1
URBANIZATION

	Urban population				Percentage of urban population			
	As a percentage of total population		Average growth rates		In the largest city		In cities of over 500.000 inhabitants	
	1960	1980	1960-1970	1970-1980	1960	1980	1960	1980
1. *Capitalist industrial countries*	68	78	1.8	1.4	18	18	48	55
2. *Socialist industrial countries*	49	62	2.4	1.8	9	7	23	32
3. *Latin American countries*								
Mexico	51	67	4.8	4.3	28	32	36	48
Guatemala	33	39	3.8	3.9	41	36	41	36
El Salvador	38	41	3.2	3.3	26	22	...	...
Honduras	23	36	5.4	5.5	31	33	...	...
Nicaragua	41	53	4.0	4.7	41	47	...	47
Costa Rica	37	43	4.2	3.3	67	64	...	64
Panama	41	54	4.4	3.6	61	66	...	66
Venezuela	67	83	4.7	4.2	26	26	26	44
Colombia	48	70	5.2	3.9	17	26	28	51
Ecuador	34	45	4.4	4.2	31	29	...	51
Peru	46	67	4.9	4.2	38	39	38	44
Bolivia	24	33	3.9	4.1	47	44	...	44
Paraguay	36	39	2.9	3.8	44	44	...	44
Chile	68	80	3.1	2.3	38	44	38	44
Argentina	74	82	2.0	2.1	46	45	54	60
Uruguay	84	84	1.3	0.6	56	62	56	52
Brazil	46	68	4.8	4.1	14	16	35	52
Cuba	55	65	2.9	2.1	38	32	38	32
Dominican Republic	38	51	5.6	5.4	50	54	...	54

Source: World Bank, 1982, table 20.

recalls the conclusions of an Inter-American Development Bank study on the situation and prospects of 19 cities with populations of more than one million, located in Mexico, Venezuela, Peru, Chile, Argentina and Brazil. In 1950, they harboured 21.2 million inhabitants, a figure which reached 52.6 million in 1970 and which is assumed to have risen to 76.9 million in 1980. The mere increase between 1970 and 1980 probably exceeded their total aggregate population 30 years ago (Boisier, 1976). It is superfluous to mention the variety of astounding projections as regards what would necessarily happen by the year 2000 if the trends recorded were to be maintained.

This is indubitably one of the realities whose roots reach far back into our region's history. Colonial times and the primary-exporter phase of growth helped to establish these dominant and absorbent urban centres. And the same thing happened —sometimes to a greater extent— during the subsequent stage of "inward-directed" development based on industrialization. While we shall revert later to other contrasts in this respect with the pattern of the industrial revolution in Europe, it is worth while to note here that, generally speaking, it was not the great "political capitals" that were the seats of this process. In a word, the counterparts of Manchester rather than those of London were the main focal points. One may think, for instance, of Rome, Paris, Berlin or Madrid *vis-à-vis* Milan-Turin,

Alsace-Lorraine, the Ruhr and Barcelona-Bilbao.

Furthermore, the propensity to settle in big metropolitan nuclei and the remarkably high rates of urbanization observable in Latin America must be assessed with an eye to the nature and evolution of the structures of employment and production between 1960 and 1980 (see tables 2 and 3).

As regards the sectoral distribution of the labour force, a notable characteristic is the simultaneous and almost equally intensive movement towards a relative increase of employment in services and a reduction in agriculture. The expansion of the tertiary sector is reproduced and accentuated in countries that differ widely in size and circumstances, such as Costa Rica and Peru, Colombia and Panama, and even Argentina, where the structure of employment was better balanced in 1960. A feature peculiar to Chile was that the proportion represented by services was already very high in the base year (50%, as in Uruguay) and reached the exceptional level of 62% in 1980.

The moderate increase in the share of industrial employment primarily reflects the trend followed in Brazil, Mexico, Cuba and Venezuela. In other economies, in contrast, the decrease in the relative importance of employment in agriculture is accompanied by very small increases or even reductions in industrial employment, as in Argentina and Chile. In 1980 the proportion represented by services was —in Latin America as a whole— much the same as in the capitalist

SECTORAL DISTRIBUTION OF THE LABOUR FORCE

(Percentages)[a]

	Agriculture		Industry		Services	
	1960	1980	1960	1980	1960	1980
1. *Capitalist industrial countries*	18	6	38	38	44	56
2. *Socialist industrial countries*	41	16	31	45	28	39
3. *Latin American countries*	47	31	20	24	33	45
Mexico	55	36	20	26	25	38
Guatemala	67	55	14	21	19	24
El Salvador	65	58	17	22	21	27
Honduras	70	63	11	15	19	22
Nicaragua	62	39	16	14	22	47
Costa Rica	51	29	19	23	30	48
Panama	51	27	14	18	35	55
Venezuela	35	18	22	27	43	55
Colombia	51	26	19	21	30	53
Ecuador	58	52	19	17	23	31
Peru	52	40	20	19	28	41
Bolivia	61	50	18	24	21	26
Paraguay	56	49	19	19	25	32
Chile	30	19	20	19	50	62
Argentina	20	13	36	28	44	59
Uruguay	21	11	29	32	50	57
Brazil	52	30	15	24	33	46
Cuba	39	23	22	31	39	46
Dominican Republic	67	49	12	18	21	33

Source: World Bank, 1982, table 19.

[a]The *agricultural sector* covers crop and stock farming, forestry, hunting and fishing. The *industrial sector* includes mining, manufacturing, construction and public utilities (electricity, water and gas). All other branches of economic activity are comprised in the *services* category.

Table 3
STRUCTURE OF PRODUCTION
(*Percentages*)

	Agriculture		Industry		Services	
	1960	1980	1960	1980	1960	1980
1. *Market-economy industrial countries*	6	4	40	37	54	62
2. *Non-market-economy industrial countries*[a]	21	15	62	63	17	22
3. *Latin American countries*	17	11	32	38	51	51
Mexico	16	10	29	38	55	52
Guatemala	...	...	...	...	...	...
El Salvador	32	27	19	21	49	52
Honduras	37	31	19	25	44	44
Nicaragua	24	23	21	31	55	46
Costa Rica	26	17	20	29	54	54
Panama	23	...	21	...	56	...
Venezuela	6	6	22	47	72	47
Colombia	34	28	26	30	40	42
Ecuador	29	13	19	38	48	49
Peru	18	8	33	45	49	47
Bolivia	26	18	25	29	49	53
Paraguay	...	...	...	...	...	...
Chile	10	7	51	37	39	56
Argentina	16	...	38	...	46	...
Uruguay	19	10	28	33	53	57
Brazil	16	10	35	37	49	53
Cuba	...	...	...	...	...	...
Dominican Republic	27	18	23	27	50	55

Source: World Bank, 1982, table 3.
[a]Data based on the net material product.

central economies in 1960, and in several countries of the region (Venezuela, Colombia, Chile, Argentina and Uruguay) the corresponding levels equalled or exceeded those of 1980 in the central economies aforesaid. The contrasts with the European socialist groups are particularly marked in respect of the proportion of industrial employment.

The panorama can be more clearly visualized if the profiles and modifications of the sectoral structure of the product are taken into account (see table 3). Although the share of services did not increase in the years under consideration, its level approached that noted in the capitalist industrial economies in 1960.[2] But more significant is the fact that there was no change in 1980 notwithstanding that the contingent employed in the sector increased from 33% to 45% of the total labour force (see table 2), which meant that its apparent rate of increase of productivity was very low (see table 4). It would seem to have reached barely 1.7% as against a global rate of 3.4%.

A similar balance-sheet for the period 1950-1970 is shown in an ECLA study on the sectoral evolution of the product, employment and productivity in a group of eleven representative countries (ECLA, 1977). It is concluded there that from the outset of the industrialization process the growth rates of services in Latin America resembled those of the global product. The productivity of the sector, however, increased at very low rates; consequently, albeit the product of

[2] The figures for the socialist economies relate to the "net material product" and are not comparable.

Table 4
LATIN AMERICA: EVOLUTION OF PRODUCT PER PERSON EMPLOYED, 1960-1980

(Dollars at 1980 prices)

	1960	1980	Percentage increase	Growth rate
Total	*3 287*	*6 764*	*105.8*	*3.7*
Agriculture	1 152	2 269	97.0	3.4
Industry	4 323	11 212	159.4	5.0
Services	5 130	7 215	40.6	1.7

Source: World Bank, 1982.

services in Latin America represented more than half the total product, both in 1950 and in 1975, it was generated with low levels of productivity and high percentages of employment. According to the study in question, while the annual growth rate of employment in the tertiary sector was 4.1%, its productivity rose by barely 1.1% during the period discussed.

So rapid an evolution of services seems at variance with what is a manifest and generally accepted fact, namely, the intensive technical modernization which the sector has undergone, especially in the last twenty years. The concentration of this progress in information systems and the financial sectors has implied the elimination of routine jobs and the expansion of many other well-paid occupations requiring mastery of the ascendent technique.

From another standpoint, however, it seems evident that this modernization (whose intensive and indiscriminate character gives obvious grounds for reservations) went hand in hand with the proliferation of all sorts of informal occupations or services, whereby the sector's traditional heterogeneity was accentuated. Here, undoubtedly, is to be found the main culture medium of what has been called spurious tertiarization, i.e., the nearest thing to disguised unemployment; the precarious and thinly-spread distribution among many of functions or jobs which could be performed by a few. Be that as it may, these two disparate movements do most to account for the unsatisfactory evolution of efficiency in services.

A comparison with parallel data for the agricultural sector reveals very patent and suggestive differences. To begin with, a considerable reduction of its importance in the product and in employment can be noted —about one-third in each case. This did not affect the significant disparity between its shares in employment and in the product: 31% in the former and 11% in the latter, as clear as possible a sign of the sector's comparatively low productivity, although its evolution was relatively favourable as against that of services. Thus, by 1980 (see figure 1) very few countries (Colombia, Argentina and Uruguay) showed an approximate equilibrium between the proportions of employment and of the product represented by agriculture; this might suggest either that there was still an appreciable surplus of available population or that the yield obtained from the disposable resources was deficient, a disjunctive which will be reverted to later.

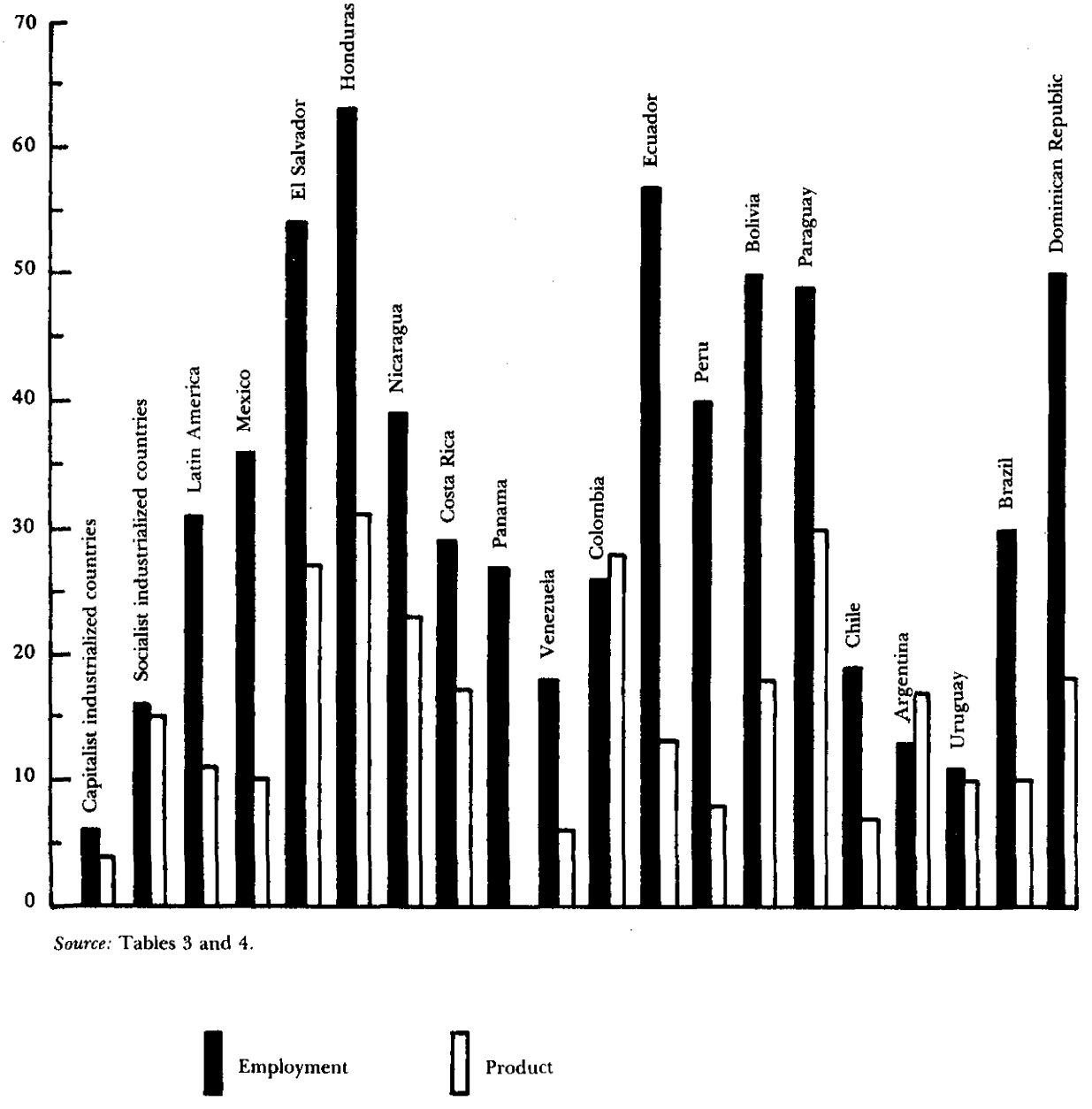
3. *A critical review*

The tendencies towards metropolization and tertiarization, together with the manifest relegation of the agricultural-rural sector to a position of declining significance, call for a critical review of their *raison d'être* and implications. This is all the more necessary inasmuch as the changes referred to are similar in broad outline to what has happened in the industrialized economies. Thus, some contradictions might be interpreted as proper to a retarded development and likely to disappear in the long run, as the standard of reference was more closely approached. But this is not the case, inasmuch as the analogy is riddled with misconceptions.

A critical view of metropolization seems to have won a consensus, especially regarding the undesirability of past trends, being maintained or strengthened, whether through enlargement of the big cities, or through the primacy of the leading nucleus, or through a combination of the two. It is even admitted that some arguments adduced in this respect in the industrialized countries may be still more cogent when applied in Latin America's circumstances.[3]

[3]Gilbert (1976) points out that the situation is yet more marked in Latin American cities, where the lack of fiscal funds, low per capita income and unbridled speculation in construction and real estate imply that the distribution of

Figure 1
THE AGRICULTURAL SECTOR: ITS SHARE IN THE PRODUCT AND IN EMPLOYMENT, 1980



Source: Tables 3 and 4.

costs and benefits is very unequal and favours the higher income groups. In Bogotá, as in many other cities, there is a sharp division between the upper-income residential suburbs in the north of the city and the slums and shanty towns in the south and north-west. The northern area enjoys better road, telephone, water and electricity services, and where appropriate services cannot be provided by the public sector, as in the case of health and education, these high-income sectors can organize them on their own account. Gilbert goes on to say that diseconomies are inequitably distributed. The worst consequences of traffic congestion are suffered by the middle and low-income groups living between the centre of the city and the more affluent northern suburbs. Needless to say, arguments like Gilbert's are current coin in any of the big Latin American cities, save for well-known relative exceptions.

Something that is obviously still a moot question —despite the skilled and praiseworthy work of specialists— is what must or can be done with respect to metropolization and particularly to the employment problems that have been aggravated by its inordinate expansion. They are especially linked with the tertiarization process, since it is to the services sector above all that the increment in the metropolitan population stemming from its own demographic growth and from the rural primary sector has resorted. Moreover, setting aside the small increase in the participation of industry, the expansion of services is the counterpart of the decline in agricultural employment (see table 2).

Criticism of these changes and trends is founded on well-known facts, which demolish any analogy with what really happens in the industrialized economies, against a background of average levels of income and productivity far above those prevailing in the Latin American region.

By way of illustration, suffice it to consider the disparities in the per capita product (see table 5), and the fact that in Latin America the stratum that represents the poorest 50% of the population receives only under one-third of the average income. [4] At those levels (less per year than 700 dollars at 1980 prices), the population in question has to allocate a high proportion of its expenditure (about 50%) to food and a very small share (a little over 10%) to non-essential services.[5]

As regards standards of productivity in the agricultural sector, an approximate picture of the contrasts can be deduced from the differences in productivity per area farmed and per person employed in industrialized economies and in Latin American countries (see table 6). The very high productivity in the industrialized world —whether in respect of land use or of yield per person— means that its dwindling labour force is able to satisfy its own requirements in full, leaving a big surplus to meet demands in other spheres.

[4] According to estimates for 1970 (Pinto, 1976).

[5] The data relate to Chile, but they admittedly represent situations common to the region, with the exception, mainly, of the River Plate countries (Filgueira, 1981).

Table 5

PER CAPITA GROSS NATIONAL PRODUCT IN DIFFERENT REGIONS

(Dollars at 1980 prices)

	1955	1980
Whole world	1 320	2 500
Europe	4 640	10 720
United States	7 031	11 560
Japan	1 600	9 000
Latin America	875	2 000
Low-income countries[a]	160	260

Source: World Bank, 1982, table 3.2.

[a] Represented 47% of world population in 1980.

Table 6

AGRICULTURAL PRODUCTIVITY AND AREA PER PERSON EMPLOYED, 1979[a]

	Land (dollars/ha)	Labour (dollars/person employed in the sector)
a) *Industrialized countries*		
United States	69	13 000
Canada	56	7 400
France	284	4 300
Denmark	409	6 600
The Netherlands	1 067	7 200
Italy	452	3 000
Japan	2 571	2 000
b) *Latin American countries*		
Mexico	51	700
El Salvador	243	400
Costa Rica	160	1 300
Venezuela	60	1 500
Colombia	102	1 600
Ecuador	114	500
Peru	23	370
Brazil	25	370
Argentina	22	3 000
Uruguay	27	3 000

Source: Prepared by the Joint ECLAC/FAO Agricultural Division.

[a] Agricultural product at factor cost, divided by the number of hectares under crops plus permanent pasture, or by the labour employed in the agricultural sector, as indicated, and expressed in dollars at constant 1963 prices. The figures have been rounded.

It is these realities that account, in essence, for the phenomena described, and induce caution in appraising their reproduction —even though at a distance, yet with a pronounced bias— in the Latin American countries. In every case, analogies are shown to be fallacious by the unequal degrees of development of the productive forces and the manifest failure to meet the basic needs of a sizable contingent of the Latin American population.

This structural distortion suggested by the prevailing trends and situations in the tertiary and agricultural sectors is a significant part of the general maladjustment affecting the current devolopment style. The structure of production (or of supply, if foreign trade is taken into account), shaped as it is by unequal income distribution and other contributory factors, is a long way from the "normal" composition (according to the industrialization structures identified by Hollis Chenery) which would be appropriate to the average income and to the nature and ranking of the needs of the bulk of the population, even if the idea of an equidistributional utopia were to be dismissed (Chenery, 1960). In other words, whereas average income or productivity would require that a considerable (or at least a larger) proportion of human and material resources were used to produce basic goods and services to meet the over-ridingly urgent needs proper to the situation, the region's production potential is primarily channelled into the supply of goods characteristic of industrial economies (with average incomes five times higher or more) or into a disproportionate services sector which to a great extent represents a dumping-ground of disguised unemployment (Pinto, 1973).

4. *Incidence on employment and poverty*

The circumstances described have had, *inter alia*, a vitally important effect, expounded in recent PREALC and ECLAC studies, on the employment problem and poverty (Tokman, 1980).

Whether the categories utilized are those of formal and informal sectors, of underemployment of the labour force or the poverty lines, the truth is that —apart from the alarming scale of each problem— in every one of them can be seen a tendency for the urban nucleus to be most strongly represented. Thus changes overtake the categories characteristic of former times, when the rural agricultural world was the focal point of comment and denunciation, while the urban centres —if not exalted as a paradise to which to aspire— at least were presumed to be an intermediate purgatory on the way to happier destinies with greater potentialities (as was hinted at the end of the quotation from J. María Arguedas).

In more recent times —and not because the dearths or lags of the rural sphere have been overcome— it is the cankers of the city that attract attention. And with good cause. As is pointed out by Tokman (1981), "there is a clearly growing transfer of rural underemployment to urban areas. This means that today the phenomenon is much more visible than thirty years ago... The effects on the supply of basic urban services are also quite clear". Urban underemployment rose from 13.6% of the total in 1950 to 19.5% in 1980, whereas the share of agriculture dropped from 32.6% to 22.6%. Given the notable increase in the urban population —which as a proportion of the total went up from 40% to 65% between 1950 and 1980—, the implication is that the absolute figures are already higher than those for the rural environment. The latter still has a bigger population below the poverty line, but the proportions and volumes tend to alter, prejudicially to the urban sectors. In sum, by 1980, 46% of poor households, as against only one-third of the total, in 1960, were settled in urban areas (see table 7).

Lastly, mention should be made of another suggestive fact: "the difference between the agricultural wage and the wages of some of the less skilled urban activities into which migrants are usually incorporated, such as construction, has tended to decrease". Conversely, "the tendency for basic wages to become more homogeneous is combined with an increase in wage heterogeneity in the urban markets. ... The better-organized wage-earners, who are working in larger, more productive companies, have been more successful in defending their incomes than those holding jobs at the base levels of the labour market" (Tokman, 1981).

In short, there is reason to acknowledge the progressive weakening of the urban option of the past, and of the large cities' supposed capacity to

Table 7
POOR HOUSEHOLDS: URBAN AND RURAL PERCENTAGES OF THE NATIONAL TOTAL
(National total = 100)

Country	1960		1980	
	Urban	Rural	Urban	Rural
Argentina	48	52	57	43
Bolivia	16	84	29	71
Brazil	33	67	48	52
Colombia	45	55	60	40
Costa Rica	25	75	31	69
Chile	56	44	67	33
Ecuador	18	82	27	73
El Salvador	27	73	34	66
Guatemala	20	80	23	77
Honduras	14	86	27	73
Mexico	32	68	46	54
Panama	31	69	44	56
Peru	31	69	40	60
Uruguay	78	22	80	20
Venezuela	53	47	61	39
Latin America	*33*	*67*	*46*	*54*

Source: Estimates prepared by the ECLAC/UNDP Inter-institutional Project on Critical Poverty in Latin America.

absorb the flow of migrants as well as their own population increment.

5. *The paradigm and its conditioning factors*

It should be repeated that the ECLAC hypothesis was based on the historical paradigm of capitalist development, with Western Europe as its main scenario. From this standpoint, a belated but persistent transformation of agriculture gradually established the conditions for a social division of labour between countryside and town. This and the industrial revolution which followed were the factors behind the promotion and assimilation of the population shift to urban activities and nuclei.

In broad outline, the picture is clear. But perhaps a macroscopic appraisal gives an over-simplified image, unduly linear, of the long and uneven formative process of the industrialized economies of the Old World, especially in the respect of paramount importance for our topic, namely, the absorption by urban activities of the population displaced from agriculture and other traditional sectors.

The aforesaid long-term evolution cannot be fairly assessed without taking into consideration, for example, the mass emigration from Europe to the new areas, primarily the American continent, which began in the mid-nineteenth century (see table 8). There were nearly 52 million persons that followed those routes, while the total population of Europe at the turn of the century amounted to little more than 400 million.[6]

Table 8
EUROPEAN MIGRATIONS, 1846-1932
(Thousands of persons)

Country of origin[a]		Destination[b]	
Europe[c]	*51 696*	*America*	*51 826*
United Kingdom	18 020	United States	32 244
Italy	10 092	Argentina	6 405
Austria-Hungary	5 196	Canada	5 206
Germany	4 889	Brazil	4 431
Spain	4 653	Cuba (1901-1932)	857
Portugal	1 805	Uruguay (1839-1932)	713
Sweden	1 203		

Source: Carr Saunders, 1963.
[a]Figures for the period 1846-1932.
[b]Figures for the period 1821-1932.
[c]European population, 1958: 423 million (United Nations, 1958).

There is a plethora of studies and literature (from Engels to Dickens) describing the social conditions which prevailed at that time —even in the leader country itself— and which certainly were not those correponding to "capitalism with a human face" or to an industrial-urban system which smoothed the way for the human contingents driven out or attracted by current forces. Obviously a migratory flow of that magnitude must have proved essential for the general viability of the system and for obviating the most pessimist prophecies as to its near future (Monta-

[6] After this exceptional international transfer, one-eleventh of the world's population consisted of peoples of European origin that were no longer living in Europe (Carr Saunders, 1963).

ño, 1979). This, of course, does not imply disregard of other factors which exerted influence in the same direction, such as the cheap and plentiful supply of food and provisions offered by suppliers in the periphery —to which the emigrants themselves contributed.

The history of these relations was undoubtedly different in the new capitalist centres, especially in the United States and in the British Commonwealth countries, but circumstances in these (relatively) empty spaces likewise differed from those existing in Latin America (A. Di Filippo, 1979).

Be that as it may, the records of the exodus from Europe afford useful background information —to which little consideration has been given— for a thorough appraisal of the version of the classic paradigm appearing in the Latin American capitalist development model.

6. *Critical review of explanatory factors*

Until a short time ago, most analyses of the basic problems, dynamics and composition of employment concentrated on such aspects as the dearth of opportunities in non-agricultural or urban activities, particularly industry, and the low levels of investment or of the growth rate. A series of PREALC studies has contributed to a fairer assessment of the significance of these factors, without denying their importance in specific circumstances and cases (Tokman, 1980 and 1981; García, 1982; and PREALC, 1982).

To begin with, it has been stressed that in the period 1950-1980, the annual growth rate of the active population in the non-agricultural universe was 3.7% and that the corresponding figure for manufacturing industry was 3.4%. It should be borne in mind that in the countries of the European Economic Community, during the 1960s —a time of great dynamism and even of significant immigration— employment in industry expanded at an annual rate of 0.5% and the total labour force by 0.2% (Pinto, 1983). Again Norberto García notes that a representative group of Latin American countries studied shows "gross investment coefficients and economic growth rates in the period 1950-1980 which placed them at the level of or even above the record of today's advance countries in the corresponding transition period" (García, 1982).

The problem, then, is not one of shortcomings at these levels, whatever exceptions may be discoverable if specific periods or economies are taken into account. Moreover, up to a little while ago there was a prevailing tendency to underestimate or overlook the incidence of other factors, such as population trends and metropolization (see table 1).

According to ECLAC data, between 1950 and 1975 the population of Latin America grew faster than that of any other region. In those 25 years it doubled, whereas world population increased by less than 60% and that of the industrial countries by a little over 30%. It has already been pointed out that Latin American trends —with few exceptions— are exceptionally dynamic as regards the labour force and urbanization.

Paradoxically, emphasizing this dimension implies attributing it unique importance only at the source and in long-term strategies. In other words, it may be a factor of paramount importance for the statement and explanation of the problem, but to resolve it other determinants would have to move in the appropriate direction.

Although a decrease in the demographic growth rate is predicted which would bring it down to 2.4% at the end of the century as against 3% in 1970-1975, in any event this would really imply an 88% increment in the regional population between 1975 and the year 2000. Moreover, it is estimated that the active-age population will increase during that period at an annual rate of about 2.9%: from 170 million to over 345 million between the above-mentioned years. Thus, as summed up in an ECLAC document, since the population which will reach the economically active age in the next fifty years is already born, changes in fertility and policies adopted to hasten its decline will produce effects only from then onwards. Willy-milly, in twenty years' time two-thirds or more of the population will be living in cities. The great challenge confronting the countries of the region is how to regulate the process of urban and metropolitan concentration, while at the same time changing the existing patterns of the economic structure and improving the skills of the labour force in the countries of the region (ECLA, 1979).

II

Some restructuration options

The structural changes and characteristics described pose problems and unknown quantities of great magnitude and complexity. An attempt will now be made to explore some options which have been proposed for coping with them. Our starting-point will be the premise that greater equity and well-being depend directly and decisively upon the labour force's access to and insertion in the structure of employment and production and on the distribution and control of existing assets and their yields. We shall take the first of these elements as the guiding thread in the analysis because it is the immediate indicator of the popular strata's level and share of income.

The root of the whole matter lies in the anomalies previously identified, mainly disproportionate metropolization and spurious tertiarization. In the last analysis, these interrelated phenomena nurture structural heterogeneity, which is associated with and reinforced by disproportions of equal or greater depth in social production relations (including the ownership of assets) and the power system (Pinto and Di Filippo, 1974 and 1979). Ultimately, income distribution is determined in the main by these conditions, which in turn are reproduced and sustained by income distribution itself, in a vicious circle of reciprocal and cumulative interactions.

What possibilities or options are discernible for correcting this vicious circle and turning it in the opposite direction, i.e., towards greater structural and therefore distributive homogeneity?

In principle the reply is simple, almost a truism: all this will depend upon whether the social strata bogged down in the universe of the informal sector, underemployment or spurious tertiarization are able to raise their levels of productivity in absolute terms and above all relatively (in comparison with the average for the system), thus reducing heterogeneity in performance and inequity in income distribution.

However, the changes that have taken place in recent decades have crystallized in a structure of the product and of employment that it would be difficult to reverse in the short term. Furthermore, the increase in open unemployment in many countries resulting from the international crisis and from domestic factors, has superadded new challenges and difficulties. Lastly, a variety of research on probable future trends and changes suggests that the features identified will continue to carry weight, even if growth rates are satisfactory.

Joint studies by the ECLAC Economic Development Division and Economic Projections Centre, for example, put the matter in the following terms: given the prevailing growth style, a decidedly dynamic annual rate of expansion (7%) and data for an economy similar to that of Brazil (and by approximation to the region as a whole), an attempt has been made to glimpse what would happen by the end of the century in certain basic respects, among them employment and income distribution, which are closely interrelated. As regards employment, the proportion of the labour force either unemployed or working in the backward (primitive and lower middle) strata[7] would drop from 53% to 45%, approximately, between 1970 and the close of the century, whereas its size in absolute figures would be doubled. The composition of this group would appreciably alter, becoming more urban than rural. The consequent differences in productivity would be accentuated, and by the end of the period employment in agriculture and the traditional services would represent only one-fourth of the national average. What the model revealed as to income redistribution derived directly from the structure and evolution of employment. There was some improvement but the basic imbalance persisted (ECLA, 1974).

With these conditions in mind, the time has come to look into some of the options that have been propounded. In this first approximation a distinction will be drawn between *horizontal transfers* among sectors and *vertical displacements* within them.

[7] A somewhat larger universe than that of underemployment or the informal sector.

1. *Greater absorption in the metropolises*

Some PREALC documents, particularly those by V. Tokman and N. García cited above, shed light on this subject. Thus, García, in the most recent study (1982), examines the possibilities of generating more employment in modern activities, located mainly in metropolitan areas, in order to absorb the manpower redundant in the traditional sectors, above all in agriculture. This option might be regarded as tantamount to a reformulation of the historical paradigm, dynamized by investment flows transferred from the modern urban sector, which is the one that generates or controls the capital component of the actual or potential economic surplus.

The basic assumption in the above-mentioned analysis is that the process of creating a job in modern activities entails exceptionally large resource requirements, both in absolute terms and in respect of "the *difference* between the latter and the amount of resources required to create a job in traditional activities" (a reasonable degree of productivity being understood). The arguments in support of this hypothesis transcend "the well-known concept of differences in investment per employed person between modern and traditional activities" and embrace the implications of "meeting the greater resource requirements of the differences in productive infrastructure" and "commiting resources to satisfy the differences in per capita consumption between the level associated with the new occupations in modern activities and that prevailing in traditional rural areas". The problem would be, therefore, one of "reproducing surroundings or a context where the modern establishments are inserted, and without which the increases in productivity would not be realized with the same intensity". Lastly, an outstanding point is the historical context of the problem; the substantial difference between levels of agricultural and non-agricultural productivity and the corresponding levels in the central economies at a similar stage of development. Thus, the transfer to modern urban activities presupposes an accumulation effort "more intense and prolonged than has been shown by today's advanced economies during their respective processes of change in their occupational structures".

These and other conditioning factors show how unlikely it is that the processes of absorption in the large cities can be revived with the same intensity and results as before. This conclusion is decisively reinforced if reference is once again made to the fact that the metropolitan centres —in a greater or a lesser degree— have their own serious problem of productive "indigestion" of the flows generated by migration and by their own population increase. Generally speaking, these far exceed what might be considered necessary as a functional manpower reserve, either in the strict sense of the term, or as a requisite for controlling wage movements, i.e., a stand-by contingent.

2. *Changes in the composition of employment*

An option discernible from another point of view is that of a vertical shift within the metropolitan universe, taking the form of a sort of spiralling transition from the depth of underemployment (informal jobs or open unemployment) to higher-productivity activities, whose object is the creation of goods or the provision of more or less skilled services.

In relation to the foregoing analysis, this option would have the advantage that the contingents susceptible of absorption are there already, in the metropolitan environment, doubtless in extremely precarious conditions, but with some margin of collective facilities (public utilities, a marketing system, etc.) which establishes part at least of the town-life surroundings that might facilitate their access to other more productive and profitable occupations.

Even leaving out of the reckoning the huge resource allocation which such an evolution would in any event require and the consequent repercussions on the viability of other options, the limitations or objections to this alternative are easy to see. To begin with, at a more general level, it might mean a strengthening of the system's centripetal tendencies, i.e., towards metropolization, thereby making the differences from the agricultural rural areas and the smaller towns still more marked. Secondly, it would consolidate and perhaps enhance the proportional over-importance of services, doubtless improving their content, but not clearing away the general objections to this phenomenon. And lastly, the

possibilities of looking to industry as the chief recipient of the real or potential labour force are also attended by difficulties to be overcome: on the one hand, the historical-structural pattern of relatively low percentages of urban employment represented by employment in manufacturing industry, [8] and, on the other hand, the fact that as a result of increasing concern for the environment a negative view is taken of over-concentration of industrial activity in metropolitan areas.

3. *Agricultural employment potential*

From another angle, thought might be given to the possibilities of a more or less appreciable proportion of the potential flow of migrants to the cities being absorbed by the agricultural sector itself.

Let it be clearly understood that it is not a matter of re-installing in agriculture fractions of the implicit metropolitan surpluses —an idea which seems both utopian and regressive, especially in a short-term view—, but of restricting the exodus in some degree by means of productive absorption in its sector of origin or in related activities.

This possibility might be quantified by assuming an annual growth rate of agricultural employment at least equal to that of the rural population, i.e., about 1.4% (ECLA, 1978). To this end, it is useful to bear in mind the rates of increase of agricultural employment and productivity in the period 1950-1975, which were, respectively, 0.8 and 2.8% per annum (see table 9, and note the time difference in comparison with table 4).

Table 9
GROWTH OF EMPLOYMENT AND AGRICULTURAL PRODUCTIVITY, 1950-1975
(Annual rates of expansion)

	Employment	Productivity
1. *Latin America* (11 countries)[a]	*0.8*	*2.8*
2. *Non-oil-exporting countries*	*0.7*	*2.9*
Group A[b]	0.8	2.9
Group B[c]	0.2	3.1
3. *Oil-exporting countries*[d]	*1.8*	*2.1*

Source: ECLAC, 1977, table 4.
[a]Argentina, Brazil, Mexico, Colombia, Chile, Panama, Paraguay, Peru, Bolivia, Ecuador and Venezuela.
[b]Argentina, Brazil and Mexico.
[c]Colombia, Chile, Panama, Paraguay and Peru.
[d]Bolivia, Ecuador and Venezuela.

Apart from the contrast in the evolution of the two variables, differences between groups of countries should be pointed out. It is suggestive that the countries which were at that time oil exporters (Venezuela, Bolivia and Ecuador) show more balance rhythms, and in particular, an annual growth rate of employment of 1.8%, a fact which may be taken as demonstrating that developments of this type are possible in specific circumstances.

The initiative proposed must of course be harmonized with the need to sustain or increase standards of productivity, given the backwardness of the sector in this respect, and the incidence of this lag on the heterogeneity of the overall economy and also of the agricultural sector itself. Unless the two objectives were combined, greater absorption of manpower in agriculture would only make the problems worse.

Furthermore, in order to go more deeply into the option under discussion, it would appear necessary to break down the global structure of the sector by its two main segments: capitalist or modernized agriculture, and peasant agriculture (Schejtman, 1980; FAO, 1981). The first element of interest for this study has to do with the share of each of these areas in employment and the trends followed in the past, not forgetting that both

[8] In one of the most complete studies on the subject, ECLAC stressed that "past experience in the more advanced economies has pointed to two basic features: a relatively high percentage of industrial employment in urban employment, and a rather steady persistence in this percentage" (ECLA, 1976, p. 36). Generally speaking, the proportion fluctuated around 50%, tending to decline only in recent decades because of the increasing importance of relatively skilled services. In contrast, as the study shows, "the situation has been quite different in Latin America, in relation both to the share of industrial employment in all urban employment, and to the long-term trend" (p. 37 and figures VII and VIII).

encompass very wide differences between countries or within them.

From the background data —which do not always coincide, because of the difficulty of obtaining and organizing comparable data for representative periods or scenarios— it seems possible to draw certain fairly indisputable deductions. One is that peasant agriculture (individual or based on different forms of association) accounts for a high proportion of agricultural employment, ranging from 52% for the region as a whole to percentages fluctuating between 70% and 80% in specific countries, for example, Brazil, Mexico, Ecuador and Panama (Ortega, 1982, p. 87). According to a recent PREALC estimate for 1980, "close to 35% of the regional farm labour force worked in entrepreneurial agriculture (which includes both modern entrepreneurs and those associated with traditional forms of farming), while the remaining 65% was engaged in peasant agriculture". Only in Argentina, Costa Rica, Chile and Uruguay did the share of the entrepeneurial segment exceed 50% (López Cordovez, 1982).

Moreover, again according to PREALC, there would seem to have been a decline in the proportion of the total EAP represented by the modern agricultural strata (from 22% to 12% between 1950 and 1980) —a greater degree of compression than was shown by traditional activities (from 32.5% to 22.6% of the total EAP). In the same connection, another study states that the expansion of capitalist activity in agriculture seems to have accelerated the process of "expulsion" of the rural labour force (Miró and Rodríguez, 1982). In dealing with the subject, López Cordovez adds other elements: "although this matter has not been adequately appraised, what does seem clear is that the nature of employment has tended to change with the adoption of capital-intensive technologies; this change has been reflected in a reduction in the number of workers with permanent jobs and an increase in the temporary hiring of manpower for some jobs which are not easilymechanized; this temporary labour comes from the *minifundios* or neighbouring small towns and even includes migrants from the cities" (López Cordovez, 1982, p. 28).

Upon what factors would the possibility depend that this situation and trend might be changed in the future instead of being perpetuated, as it is reasonable to predict, if the basic conditions determining them remain in force?

4. *Land and employment*

From the specialized literature can be deduced some issues of key importance for a reply. In the first place —and closely linked— are those relating to the deconcentration and reorganization of the land ownership system and to the forms taken by technological progress. As regards the first question, it seems clear that a general requisite for raising the productivity and earnings of peasant labour is an increase in its endowment of land. Although there are sometimes opportunities of achieving this through the incorporation of unexploited resources, the commonest thing is for it to depend upon transfers from modernized and from traditional agriculture. This inevitably reopens the long-standing debate on agrarian reform, which we shall certainly not attempt to recapitulate. It is a topic whose importance and content have undergone considerable vicissitudes through time, swinging from periods when it has played a protagonistic role to others marked by lack of interest.

The experiments tried out since the Mexican revolution (and Mexico's own subsequent experience) have left behind them a wake of achievements and frustrations, on which various mutually contradictory studies are based. They have modified and enriched former conceptions, giving food for a variety of inconclusive controversies, which are in contrast with the apparent limpidity of those of the past.

Be that as it may, there is still a consensus on the problem of the concentration of land in large estates and its transcendent importance in relation to the questions of interest here. In the last analysis, a more equitable redistribution of the agricultural sector's basic asset continues to stand out as an inescapable requisite for intensifying its utilization by means of a more productive combination of human and material resources, for improving the pattern of distribution and for expanding the opportunities of full or regular employment in the agricultural sector.

In any event, this postulate may seem closer to a declaration of principles than to self-substantiation, but in our view it is sufficiently backed up by facts and by the learned studies on

the subject —always providing, of course, that priority is accorded to the objectives in question. Such a view, without forgetting or understimating the socio-political content involved (the conflict implied by the changes in the power structure) is likewise determined by a factor to which less heed is paid but which is also decisive: the need for reform projects to be capable of responding to the specificities of an agricultural scenario which is highly heterogeneous from the regional angle and often within each country. An outsider looking on at the relevant controversy sometimes wonders whether, conversely, it has not tended to become set in a model or archetype of change which serves as a standard of reference for guidelines, criticisms and consensuses, although it admits of variants within a common framework, doubtless inspired, at the corresponding distance of time, by European experience and thinking.

In other words, even it if is agreed that agrarian reforms are an imperative necessity, their social and political viability and their actual materialization will be subordinated to a creative effort of theoretical and technical thought, capable of meeting the needs of universes so highly individual and differentiated as those of pre-Colombian America and the River Plate, multi-faceted Brazil and the Colombian or Chilean environment (Heynig, 1982).

5. *The technological factor*

The nature and effects of technological progress are closely associated with the foregoing question. For a long time now a distinction has been drawn between two main options in this respect, which complement or combine with each other in very different proportions according to the case concerned. In one of Dr. Prebisch's pioneer studies for ECLAC (Prebisch, 1973) the dichotomy was defined as a duality of goals in technological progress which was clearly and distinctly manifested in agricultural investment, with the special feature that there investments can in practice be differentiated by the end pursued. In some cases the object is to increase the amount of output per unit of land, and in others to reduce the input of manpower per unit of land and per unit of output through the mechanization of labour at its different levels, from the use of better tools to that of technically more advanced equipment.

The two goals, Prebisch went on to remark, were of very different significance from the standpoint of the overall economy, although for the agricultural entrepreneur both the saving of labour and the increase in yield per hectare were two ways of attaining the same objective of reducing the costs and increasing the benefits of farming.

From the point of view of the overall economy, the author continued, the degree to which it was desirable to introduce mechanization —irrespective of its advantages for the individual entrepreneur— depended on the capital available not only for the purchase of equipment and the release of manpower, but also for absorbing that manpower in industry and other activities. If mechanization were carried beyond the capacity to absorb the workers it displaced, a technological unemployment problem was created. With the aggravating circumstance that in agriculture it could be more easily avoided, since investment in that sector was divisible, and to increase production it was not necessary to go in for counterproductive labour-saving.

In this connection, Estevam Strauss recalled a comparison drawn by George Washington in relation to the technological alternative illustrated in table 6. Alluding to the low yields per area under cultivation in the United States, Washington wrote that the aim of farmers in the United States was to extract, not the greatest advantage from land, which was cheap, but the maximum from labour, which was dear. In England, on the other hand, where land was dear and labour cheap, the farmer's concern was to improve the land and cultivate it to the utmost (Strauss, 1968).

The weighting and priority accorded to the options defined, although significant in essence, must not lead to overlooking other elements in the relation between technological progress and increased productivity on the one hand, and employment on the other, in the agricultural world. One of these factors is the incidence of transnationalization on the sector, and particularly on the modernized area; this phenomenon has undoubtedly played an important role on account of its decreasing absorption of labour

and other aspects of vital significance (Vigorito, 1981).

If priority is given to the option of increasing the productivity of the land and of the labour force (rather than displacing the latter) there will be reason to think that possibilities in this direction are not to be despised. Paradoxically, the backwardness of the agricultural universe in these respects is one of the bases for this supposition. Here Trotsky's well-known and provocative thesis regarding the "privileges of underdevelopment" is valid —in the sense that a backlog is available for the purposes of attempting technological leaps or break-throughs. This chimes with a perspicacious remark made long ago by Celso Furtado, to the effect that in many regions of Brazil the mere introduction of the wheel would mean considerable progress. Just opening a highway might powerfully boost agricultural productivity (Furtado, 1953). It is needless to add that this opinion is still valid and of great importance for much of the region's agricultural sector.

The queries posed before must also be related to another question of appreciable significance: the existence of a considerable agricultural potential to be exploited. In an FAO study (1981) the region's situation in this respect is the object of a realistic analysis, bringing out contrasts with regard to countries, areas and types of farming. On the basis of the general premise that the availability of suitable soils will not in the near future be a matter of major importance with respect to increasing production in the sector, it is recalled that the Latin American countries have been using about one-fourth of the potentially cultivable area at their disposal.[9] But it must also be taken into account that three-fourths of the available potential not yet incorporated consists of problematic areas and of land subject to natural flooding, which means, on the one hand, a significantly circumscribed capacity and, on the other, very substantial infrastructure investment requirements and heavier production costs.

[9] Different estimates exist in this connection, but there is relative agreement on the advantageous situation of Latin America in comparison with other areas in the periphery (ECLA, 1978). The latter have a per capita endowment of about 0.68 potentially cultivable hectares, as against 2.05 in Latin America (FAO, 1981).

Be that as it may, the balance is positive in the main, especially in the event of appreciation of the potential already incorporated, which according to widespread expert opinion, admits of considerably more intensive exploitation by virtue of technical progress, better balanced distribution of land and the establishment of more promising forms of ownership and management of this basic asset.

All this does not clear up the doubts and queries posed. To tackle them with greater effect it is indispensable to redefine these and other issues in a more global and integrated approach to the options analysed.

6. *Integrated options: schemes and experiments*

There has in fact been a tendency to consider the subject in a more integrated frame of reference, transcending sectoral or rural-urban approaches. Outstanding in this line are the old and new explorations in the field of spatial distribution of economic activity and the population.

With respect to the matter that is of interest here —and over and above controversies, of which there is no lack—, some general opinions and guiding principles predominate which it is useful to pass in review. In the first place, there is the criticism of over-concentration in metropolitan areas (Almeida Andrade, 1982). From a strictly economic angle, it is based on the balance of costs and benefits, the assumption being that there is a point at which the former begin to exceed the latter. With all due regard to the significance of this criterion, it seems obvious that many aspects are beyond the scope of economic calculations or are hard to quantify, especially in long-term perspectives (national integration, external relations, environmental considerations, etc.). To all this must be added the relatively slight influence irradiated by metropolitan concentrations on their peripheries or hinterland, except as regards adjacent satellite towns, which often aggravate the problem. Thus another of the possible trickle-down mechanisms comes to nothing, and conversely, others are fed which transfer resources to the centre and accentuate polarization and heterogeneity.[10]

[10] Critiques of over-metropolization have been frequent

A second element, complementary to the foregoing, stresses a national urban system, based on promoting the development of small and medium-sized cities with the object of establishing specific subsystems, irrespective of institutional demarcations of territory. In other words, what is being considered, far from deurbanization, is another form of urbanization, more spread out and less concentrated.

Lastly —and most important of all for this overview— is the linkage of these processes with the productive activities that at once support and are supported by urban settlements. With reference to these ties, it has been pointed out that the importance of the vitality of small towns in buttressing a strong agricultural sector can hardly be over-estimated. They provide agriculture with key market services and supplies. Many of the industries (especially food or artisan industries) and commercial activities of those towns are linked —through supply or demand— to agriculture (Richardson, 1982). Obviously, the possibilities are greater and more diversified in the case of medium-sized cities or regional centres.

This rough outline will suffice as a first approximation, since what is of particular interest here is to illustrate it from the experience of Cuba, undoubtedly the Latin American country in which its suggestions have been most fully and persistently applied and adapted.

7. *The Cuban strategy*

Any reference to the case of Cuba is of course heavily loaded with polemics. Nevertheless, without disregarding the importance of the political-institutional context in which its strategy germinates and is executed, we consider its design to be of great value in clarifying the questions raised, and all the more so inasmuch as it has creatively assimilated contributions and practices from countries with widely differing political systems. Moreover, it is superfluous to recall that pre-revolutionary Cuba was distinguished in the region for the outstanding prominence of some of the problems described in these notes (metropolization, unemployment and underemployment). They were manifested, it is true, with characteristics of their own and in their own specific and peculiar historical setting, and this should counsel caution as regards simplistic parallels with other situations in Latin America.

Bearing in mind some relevant studies (Segre, 1977: Pupo, Weinstein and Franco, no date), it might be maintained that the aim of the Cuban strategy has been to deal jointly with the urban-rural and agroindustrial dichotomies or contradictions. With the first, through what has been called urbanization of the countryside; with the second, through agricultural industrialization, understood at one and the same time as the penetration of technical progress into agriculture and as a form of manufacturing development linked as closely as possible with agricultural production.

Roberto Segre establishes the basic premises by which the programme was guided, its aim being the homogenization of the urban and rural levels of living. Outstanding among these premises is the priority accorded to agricultural development in the so-called "consolidation decade" (1965-1975). Although this ousted from its central position the industrialization *à l'outrance* of the early years, the two objectives were intertwined in so far as the new industries were based on the processing of agricultural products and were located in the productive areas themselves. The second premise derives from the former inasmuch as it implies that the territory must be treated as a network and not in terms of development poles; it was to be equipped with an urban "skeleton" and not with isolated urban nuclei. In this process, the 100 sugar-mills distributed throughout the country constitute the points of articulation of the network and the essential basis of agroindustrial tie-ups.[11] Furthermore, the construction of the urban skeleton involves the strengthening of the medium-sized cities, in which the primacy of the tertiary function is superseded by production-service in-

of late in central and peripheral economies alike. In China, their basic constructive elements would seem to be: a) strict control of the size of large cities; b) rational development of medium-sized urban centres; and c) active expansion of small towns (Almeida Andrade, 1982).

[11]This role of the sugar-mills is a special feature of the Cuban experiment, as is also their utilization in a function so different from any they fulfilled in the past.

frastructures —machining-shops, light and processing industries, etc.

The study by Pupo *et al.*, gives a clear-cut idea of the concrete form taken by the ordering and composition of the urban-rural network or skeleton, which has as its counterpart the sectoral bases and relations. A schematic distinction can be drawn between the following levels: a) the capital, whose loss of relative importance has counteracted a tendency towards its greater expansion in the early post-revolution years; b) the thirteen provincial capitals (plus Manzanillo and Nipe) which have served as points of support for the tremendous investment effort directed towards the interior of the country. In these has been placed a considerable share of industrial investment. Industrial estates —those new territorial units, unknown in the pre-revolutionary era— have gradually taken shape; c) the medium-sized cities, some 12 towns of more than 20 000 inhabitants. Together with other developing or programmed nuclei, they are to act as sources of progressive introduction of industrialization into the countryside; d) the base-towns, settlements directly linked to specialized and essentially primary activities; and e) rural communities and agricultural co-operatives, entities designed to facilitate, in the first place, the concentration and specialization of crop and livestock production at a high industrial-type technical and organizational level, or, in the second place, the integration of small farmers. No attempt can be made here to evaluate the strategy in course of execution in Cuba. As was stated beforehand, the objective in view was to present an ambitious and coherent design which, despite all differences of politico-institutional context and material structure, may serve as a useful reference in tackling the problems posed.

8. *Transfer of surpluses*

At all events, this experiment, like others in the same field, successful or frustrated, once again stresses a condition of elemental importance for its viability: the transfer of surpluses from activities and areas of high relative productivity —the so-called modern sector— to those which have been left behind or which it is desired to strengthen. All the pertinent options depend upon the possibility of securing this re-allocation of resources, which represents a choice that transcends the generic investment-consumption alternative and even the conventional income redistribution disjunctives; what is at stake is a reconstitution of the structures of production, employment and location, which will make for homogenization instead of for deepening heterogeneity, in manifold dimensions —social groups, productive activities, urban-rural relations, spatial distribution, employment opportunities, and so forth.

Framed in this setting, the agricultural sector and the rural world in general can be seen at once as a key component of the overall situation of heterogeneity and as suffering the same phenomenon within their own sphere (coexistence of a peasant economy and of an agricultural "urban sector"). This internal duality might, perhaps, be attenuated by changing the relations between the two segments (for example, redistributing the land asset), but —save for well-known exceptions— it is difficult to imagine that the problem could be overcome in its global context without large-scale transfers from the non-agricultural or metropolitan modern sector. Thus a situation arises which differs from that prevailing in the past, at least in the agricultural exporter economies; and it involves obvious conflicts, given the pressures of every kind exerted to ensure that the urban centres retain the surpluses they generate or control.

It could also be argued, however, that after a time this development would prove beneficial for the metropolitan universe, both because of the potential for brisker trade or greater specialization of activities, and because of its incidence on migratory flows which the metropolis is not capable of absorbing productively and which imply increasing demands for welfare services.

Upon the nature of the specific trends in this respect will decisively depend the future outlook for the issues explored.

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CEPAL REVIEW Nº 24

Poverty and underemployment in Latin America

*Alberto Couriel**

On the basis of statistical information partly obtained from secondary sources —especially PREALC and the World Bank— and partly collected in personal research made in some Latin American countries, the author describes and interprets the evolution of underemployment in the region during the period 1950-1980.

The interpretation sets out to show that during this period, despite the intense economic growth and the high rate of labour absorption in urban areas, the level of underemployment remained almost constant, although the greater proportion is now urban and not rural, as in the past. There are two main factors that account for this trend: on the one hand, the demographic factor, especially population growth and rural-urban migrations, and, on the other, the content or type of the economic growth.

This latter factor, in the author's view the more important, comprises in particular the predominant forms of international insertion of the Latin American countries and the styles of industrial and agrarian development adopted by them in recent decades. These features explain the high but insufficient absorption of the urban labour force, the scant increase in the manpower employed in the modern agricultural sector, and the persistence of small peasant farmers (*minifundistas*). These structural problems call for solutions of a similar type, centered on the transformation of the productive structure and the pattern of external insertion.

In the last part, in view of the diversity of national situations, the author analyses the evolution of employment in a number of countries, grouping them according to their performance in the productive absorption of the labour force.

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Introduction

Latin America is an underdeveloped region, judging by the level attained by its productive forces and its structural features.

In this paper we are concerned to analyse two manifestations of this underdevelopment: poverty and underemployment.[1] Both reflect the inequality of access to food prevailing in the region, which derives from the levels of income, which in their turn depend on the possibilities of employment at a certain level of productivity, this being also a reflection of the development of the productive forces.

The poor, as defined in the statistical information and methodology used, are also the undernourished or families who cannot satisfy the minimal nutritional norms. The underemployed are defined either by their limited number of working hours or by the low income they receive in view of the conditions of productivity in which they work.

The fundamental nature of the economic devolopment is the central factor that accounts for the persistence of poverty and underemployment. A knowledge of this nature is vital for understanding how, at the beginning of the 1980s, the dynamism of past decades began to flag. The analysis of the nature of development assumes, in essence, the study of the forms of international insertion, the characteristics of industrial development that led to this exhaustion of economic growth, the relations between agriculture and industry in the light of the capacity of manufacturing to promote development, the features of agricultural modernization, social relations in rural areas and, lastly, the problem of power.

Analysed in terms of future prospects,

[1] The statistical information on poverty comes from various sources. In ECLAC's methodology those families are considered poor whose food intake is less than the value of a basic "basket" as regards its calorie-protein content. The statistical information on underemployment was based on a PREALC document (1980) which employs the following categories: the rural underemployed are those classified as self-employed workers and unpaid family workers in the economically active population (EAP) engaged in agriculture, plus an additional adjustment to take account of the greater participation of women and children in that population. The urban underemployed are self-employed workers and unpaid family workers in the non-agricultural EAP, excluding professionals and technicians who fall within these categories.

economic growth is a necessary condition for the elimination of poverty and underemployment, but not, as can be seen from the events of recent decades, sufficient to achieve this unaided. The *sine qua non* is self-sustaining economic growth, which calls for new conditions of international insertion. These, in their turn, must be based on new forms of industrialization and relations between agriculture and industry. This naturally implies that in order to combat poverty and underemployment the problems of the traditional rural sector must be solved in the rural localities themselves. Hence it is essential to study the subject of the structure of production, which is a determining factor for generating new forms of economic growth which will make possible the simultaneous solution of these two great manifestations of Latin American underdevelopment.

In the present article, in which the causes of underemployment and poverty are analysed within the framework of the functioning and structure of the global system, the evolution of Latin America is compared with that of the developed capitalist countries and, inside Latin America, a comparison is made between three groups of countries, classified according to their levels of poverty.

I

The situation as regards poverty and underemployment

Around the period of the 1970s, 40% of Latin American families were in a state of poverty, since their income did not cover their minimun basic needs: that is to say, their food intake was less than the basic "basket", so that we must also regard this 40% of families as undernourished.

Poverty is basically a problem which has its roots in rural areas. Of the total of undernourished or poor in the Latin American region, 60% are of rural origin (see table 1). Further, of the total number of rural families, 62% were found to be in a state of poverty; in contrast, only 26% of urban families were in this condition. In 1980, considering 14 countries in Latin America (the same number as was used in the calculation of poverty), 42% of the economically active population was underemployed, a figure very similar to that for the proportion of families in a state of poverty. Among the underemployed, too, those of rural origin predominate (54% of the total of underemployed).

The proportions of underemployment in rural and urban areas are similar to those for poverty mentioned above. Thus, in 1980 in rural areas (considering in this case the agricultural sector proper), 65% of the agricultural economically active population was underemployed, whereas in urban areas only 30% of the non-agricultural EAP was in that condition.

In classifying the countries of Latin America the rural predominance in poverty and underemployment is again apparent (table 2). The central criterion for grouping the countries was the number of poor families as a percentage of the total population. When this information was not available for a country, life expectancy at birth was used, since this has a very close and direct correlation with the proportion of poor families. The countries were classified in three groups:

Group B contains the countries with per-poverty level below 25% of the total population: Argentina, Uruguay, Chile, Costa Rica and Venezuela. It also includes Cuba, the country with the highest life expectancy at birth in the region.

Gruup B contains the countries with percentages from 34 to 49: Mexico, Panama, Brazil and Colombia. Paraguay also belongs to this group, by reason of its life expectancy at birth.

Group C consists of the countries with over 50% of poor families in the total population: Peru, El Salvador, Guatemala, Honduras, Nicaragua and Haiti. Through the criterion of life expectancy at birth Ecuador, the Dominican Republic and Bolivia are also included in this group

On average, the countries in group A had

Table 1
LATIN AMERICA (14 COUNTRIES): CALCULATION OF POVERTY,1970 AND 1980

	% undernourished 1970			Rural % of undernourished 1970	Life expectancy at birth 1970	Infant mortality 1980	GDP per capita 1980	% Underemployed 1980	% employed in agriculture 1980	% rural pop. 1980	Share of poorest 40%	Productivity of agricultural labour force 1980
	Total	Rural	Urban									
Argentina	8	19	5	51	70	45	2 390	27.7	13	18	14.1	7 343
Uruguay			10		71	40	2 810	27.0	11	16		4 215
Cuba					73	21			23	27		
Chile	17	25	12	59	67	43	2 150	28.9	19	29	13.4	1 512
Venezuela	25	36	20	56	67	42	3 630	31.5	18	17		2 401
Costa Rica	24	34	14	83	70	24	1 730	27.2	29	57	12.0	2 060
Mexico	34	45	20	69	65	56	2 090	40.4	36	33	9.9	1 302
Brazil	49	73	35	59	63	77	2 050	44.5	30	32	7.0	1 172
Colombia	45	54	38	49	63	56	1 180	41.0	26	30		1 971
Panama	35				70	22	1 730	45.5	27	46		1 807
Paraguay					65	47	1 300		49	61	7.2	1 669
Peru	50	61	35	67	58	88	930	55.8	40	33	7.0	405
Ecuador					61	82	1 270	63.3	52	55		672
Dominican Republic					61	68	1 160		49	49		916
El Salvador	68	76	61	66	63	78	660	49.0	50	59		832
Guatemala	79	82	75	67	59	70	1 080	50.9	55	61		1 047
Nicaragua	64	80	50	67	56	91	740		39	47		975
Honduras	61	75	40	80	58	88	560		63	64		628
Bolivia					50	131	570	74.1	50	67		730
Haiti	90	04	71	68	53	115	270		74	72		312
Total	40	62	26	60	64		2 174	42.0	35.0	41		1 417

Source: Statistics on undernutrition for Argentina, Brazil, Colombia, Costa Rica, Chile, Uruguay and Venezuela: Altimir (1979); for Peru: Couriel (1981); for Panama: Couriel (1979); for El Salvador, Guatemala, Honduras and Nicaragua: ECLA (1983); for Haiti: World Bank (1982b); for Mexico: PREDESAL (1983).
Statistics for life expectancy at birth, gross domestic product per capita, rural population and that employed in agriculture, productivity of labour force in agriculture and income distribution: World Bank (1982). Underemployment: PREALC (1980).

Table 2
LATIN AMERICA:
ECONOMIC AND SOCIAL INDICATORS, 1980

	A[a]	B[b]	C[c]
Percentage undernourished	15	43	64
Life expectancy at birth	70	64	58
Percentage underemployed	28	43	58
Percentage employed in agriculture	16	32	50
Percentage rural population	29	42	62
Productivity of agricultural labour force (dollars)	4 291	1 318	654
Traditional rural sector as a percentage of total labour force	9	24	35

Source: Life expectancy at birth, percentage employed in agriculture and productivity of agricultural labour force: World Bank (1982). Underemployed and traditional rural sector: PREALC (1980). Undernutrition: see table 1.

[a]Argentina, Costa Rica, Chile, Uruguay and Venezuela.
[b]Brazil, Colombia, Mexico, Panama, Paraguay.
[c]Bolivia, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Peru, Dominican Republic.

15% of poor families in their total population around the decade of the 1970s. Group B had an average of 43% and group C, 64%.

Some economic indicators of agriculture in the three groups of countries reflect the influence of rural problems on poverty. In 1980 group A had barely 16% of its labour force engaged in agriculture; in contrast, group B had 32% of its workforce in agriculture and group C, 50%. Poverty levels are higher in those countries in which more workers are employed in agriculture.

The proportion of the traditional rural sector in the total labour force has the same effect. This sector is basically composed of self-employed workers and unpaid family workers. In 1980 the group A countries had a very low proportion of labour in this sector (9% of their total workforce); group B had 24% and group C, 35%. The countries with the highest proportion of their economically active population in the traditional rural sector, in which the problem of the peasantry in the region is concentrated,[2] are those with the highest proportion of poverty.

[2] Self-employed agricultural workers form the bulk of the peasantry. Schejtman characterizes the peasant economy as that which "... comprises that sector of national farming activity where production is carried on by family-type units with a view to ensuring,cycle by cycle, the reproduction of their conditions of life and labour, or, in other words, the reproduction of the producers and the unit of production itself". "The peasant unit is, at one and the same time, a unit of production itself." "The peasant unit is, at one and the same time a unit of production and of consumption where the domestic aspect is inseparable from the productive activity. Here the decisions concerning consumption are inseparable from those affecting production, and the latter is undertaken without (or with very little) employment of (net) wage labour..." "The intensity in the use of factors —given the available volume of these and the technological level— is determined by the degree of satisfaction of the reproductive needs of the family and the farming unit, coupled with the debts or commitments incurred with third parties..." "The peaseant economy is not a natural economy or one of self-sufficiency or autarky, since a variable proportion of the material elements of its reproduction —whether inputs or articles of final consumption— have to be bought for money in the market. Hence the family unit is obliged to participate in the market of goods and services as a supplier of products and/or labour..." "In other words, the question of what to produce is not determined by the commercial nature of the product, but by its role in the maintenance of the family and the productive unit..." "The peasant unit, in contrast to the agricultural enterprise, cannot be conceived as an independent unit isolated from other similar units; it is always seen as forming part of a larger set of units with which it shares a common territorial base: the local community" (ECLAC, 1982).

The proportion of the population engaged in agriculture and the proportion in the traditional rural sector have a decisive influence on the differences in productivity of the agricultural labour force. These factors are even more influential than the potential and quality of the land and the techniques used.

In 1980, the productivity of the agricultural labour force in group A came to US$ 4 291, as compared with US$ 1 318 in group B and US$ 654 in group C.

The rural situation and the proportion accounted for by the traditional rural sector, in which the peasant sectors are situated, are determinants of the levels of poverty. The countries in group A, where the traditional rural sector accounts for only a negligible proportion, display the lowest poverty levels in the region. At the other extreme, those in group C, with the highest percentages of the labour force in the traditional rural sector, have the highest level.

Two examples will suffice to show the incidence of the traditional rural sector —self-

employed workers or smallholders— on poverty. In Peru smallholders (with less than 3 hectares) represented around 54% of the total of poor families and 80% of poor rural families in 1972 (Couriel, 1981). In Mexico self-employed agricultural workers represented 54% of the rural poor in 1975 (PREDESAL, 1983).

An analysis of underemployment likewise demonstrates the influence of the traditional rural sector. In 1970, 61.4% of the total of underemployed were in the traditional rural sector and in 1980 this sector was still predominant —despite the massive migration to the city— with 54% of the total (see table 3).

Table 3
POPULATION AND EMPLOYMENT BY SECTORS
(*Percentages*)

	Latin America		Group A		Group B		Group C		Developed capitalist countries	
	1950	1980	1950	1980	1950	1980	1950	1980	1960	1980
Underemployed	46.1	42.0	26.9	28.0	50.9	43.0	57.1	58.0		
Rural underemployed/ total underemployed	70.5	53.8	36.6	32.4	76.6	54.9	73.2	62.4		
Urban informal/urban EAP	30.8	30.2	24.8	23.2	32.6	31.5	47.5	44.5		
Traditional rural/total EAP	32.5	22.6	10.1	9.0	39.0	24.0	43.9	35.0		
Traditional rural/total rural	59.4	64.8	32.6	50.6	63.7	63.2	63.6	83.7		
Rural population	61.1	41.0	40.0	19.0	64.1	42.0	75.1	62.0	32.0	22.0
Employed in agriculture/total EAP	54.7	34.9	33.9	29.4	61.2	47.1	66.1	49.0	18.0	6.0
	Rates of growth 1950-1980									
Total population	2.9		2.3		3.1		2.9		0.9	
Urban population	4.3		3.0		4.8		4.8		1.6	
Rural population	1.5		1.0		1.5		2.0			
Total EAP	2.4		1.7		2.7		2.3		1.2	
Urban EAP	3.7		2.5		4.4		3.8		1.8	
Rural EAP	0.9		−0.1		1.0		1.2		—	
Urban formal employment	3.7		2.5		4.5		3.9		—	
Urban informal employment	3.7		2.3		4.3		3.6		—	
Modern agricultural employment	0.5		−1.1		1.0		−1.5		—	
Traditional agricultural employment	1.2		1.4		1.0		2.1		—	

Source: Developed capitalist countries: World Bank (1982 a); total urban and rural population: CEPAL (1982); other data: PREALC (1980).

II

The causes of the evolution of underemployment

In the period 1950-1980 underemployment declined slightly for the region as a whole (on the basis of the 14 countries studied by PREALC, 1980),[3] falling from 46.1% of the labour force in 1950 to 43.8% in 1970 and 42% in 1980. The dynamic economic growth of the region during 30 years did not succeed in eliminating it.

Underemployment persisted in the three groups of countries, though with a decline in group B. Group A had 26.9% of underemployed in 1950 and 28% in 1980; group C had 57.1% in 1950 and 58% in 1980; and group B showed a fall from 50.9% in 1950 to 43% in 1980.

Why has it not been possible to secure a substantial improvement in underemployment? In the period 1960-1980 Latin America registered a high rate of economic growth: the gross domestic product rose at a cumulative annual rate of 5.5%, while in the developed capitalist countries the figure was only 4.2% during the same period. Such high rates of growth, which even exceed those of the developed capitalist countries as a whole, have been rare in the past. It can therefore be categorically stated that Latin America did not suffer from insufficient dynamism, so that this cannot have been the explanation of the scant improvement in underemployment.

The economic growth is confirmed by the analysis of the different groups of countries in the region (table 4). In the group B countries the gross domestic product grew at an annual cumulative rate of 6.5% during the period. After them came the group C countries with 4.8% and, finally, group A with 4%. This last group includes Argentina, Chile and Uruguay, which do indeed show signs of dynamic insufficiency, since the overall rate of 4% was largely achieved thanks to the high rates of growth in Costa Rica and Venezuela.

Nor can the persistence of underemployment be attributed to a lack of labour absorption in the urban areas. On the contrary, the growth rates of urban employment were extraordinarily high. In Latin America the urban areas had a decisive influence on the growth of production, especially in the industrial sector (comprising mining, manufacturing and construction).

The industrial product grew at an annual cumulative rate of 6.1% in Latin America during 1960-1980 as against 4.5% in the developed capitalist countries, while services in Latin America expanded at an annual cumulative rate of 5.9% compared with 4.2% in the latter countries.

This greater economic growth in Latin America also signifies a greater capacity for labour absorption during the period. In the region as a whole employment rose during 1960-

Table 4
PRODUCTIVITY OF LABOUR FORCE, EMPLOYMENT AND PRODUCT
(Growth rates 1960-1980)

	Latin America				Developed capitalist countries
	Total	A	B	C	
Employment					
Total	2.9	2.1	3.2	2.8	1.2
Agriculture	0.7	−0.3	0.5	1.7	−3.9
Industry	3.7	1.4	5.0	3.4	1.1
Services	4.6	3.4	5.1	4.6	2.4
Product					
Total	5.5	4.0	6.5	4.8	4.2
Agriculture	3.4	2.7	3.8	3.0	1.4
Industry	6.1	3.5	7.6	5.6	4.5
Services	5.9	4.8	6.9	5.1	4.2
Productivity					
Total	2.5	1.8	3.1	1.9	3.0
Agriculture	2.7	3.0	3.2	1.3	5.5
Industry	2.2	2.1	2.5	2.1	3.3
Services	1.3	1.4	1.7	0.5	1.7

Source: PREDESAL, based on data from World Bank (1982 a). The use of this source enables us to compare the evolution of Latin America, its three groups of countries, and the developed capitalist countries (Austria, Belgium, Canada, United States, France, Italy, Japan, Norway, Netherlands United Kingdom and Sweden).

[3] Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

1980 at an annual cumulative rate of 2.9% (compared with 1.2% in the developed capitalist countries). In the urban localities of Latin America employment in the industrial sector went up at an annual cumulative rate of 3.7% as against 1.1% in the developed capitalist countries, while employment in services grew by 4.6% in Latin America compared with 2.4% in the latter countries. In brief, employment in the Latin American industrial sector rose between 1960 and 1980 at a rate more than three times that of the developed capitalist countries, while in the services sector the rate was almost double.

These higher rates of urban manpower absorption were accompanied by lower rates of improvement in labour productivity. In Latin America this rose at an annual cumulative rate of 2.2% and that of the services at a rate of 1.3% as against 3.3% and 1.7% respectively in the developed capitalist countries. Thus, although Latin America registered greater growth in urban production and employment than the developed capitalist countries, it showed less improvement in the productivity of its urban economic sectors.

Special mention should be made of the evolution of the socialist countries of eastern Europe. During the period 1951-1970 the average growth of industrial employment (manufacturing only) in seven such countries was equal to that of the industrial sector of Latin America en 1960-1980. In both cases the annual cumulative growth was 3.7%, but in the former the product increased by an annual cumulative 9.9% and labour productivity by 6%. This performance of the socialist countries has undoubtedly been influenced by the programming of the structure of production in terms of national and regional objectives.

In Latin America the highest rates of global and sectoral growth in production, employment and labour productivity are found in the group B countries (table 4). In essence the performance of the urban sectors in the region may be regarded as very positive in terms of growth of production and capacity for labour absorption, specially when compared with the developed capitalist countries. Nevertheless this growth, above all in the industrial sector, has been based on a model which now in the 1980s is showing signs of exhaustion.

Thus, the structure of production is based on a share in the international market in which primary products continue to predominate, and this affects the real revenue in foreign exchange —the scarcest resource in the region— even in the oil-exporting countries. At the same time, Latin America has applied an industrialization process without technological adaptation or creation with few internal linkages, low levels of capital goods production and scant efficiency or competitiveness in the international markets. Because of these features, the form of industrial development cannot establish a productive structure with strictly national objectives, it cannot ensure a dynamic linkage with the international market, and it is unable to eliminate underemployment and poverty. The States did not progamme this productive structure with the needs of each country in mind. The way it developed was largely due to the poor showing of the local bourgeoisies as regards the generation of autonomous processes of national development, through lack of local development projects. The formation of the productive structures has been greatly influenced by the transnational corporations, whose aims do not necessarily coincide with national needs respecting what to produce and how to produce it (Fajnzylber, 1983).

The capacity of Latin American manufacturing to promote the development of the rest of the economic sectors is also less than in the developed capitalist countries, owing to its poor linkages, non-production of capital goods and lack of technological innovation. In particular, the manufacturing industry of the developed capitalist countries, which is in the vanguard of world development, has promoted a homogenizing process within and among sectors. In contrast, Latin America has persisted in a heterogeneous production style,with great differences in labour productivity in different sectors and even within a single sector.

Latin American agriculture, unlike that of the developed capitalist countries, does not provide any economic impetus that carries with it the traditional rural sector and incorporates it as a beneficiary in the process. This is mainly because the incorporation of technology in agriculture was based on imported techniques, which were not necessarily in keeping with the local resource endowment.

The great absorption of labour in the urban economic sectors has probably been based on low levels of productivity, and has therefore not permitted those employed in the urban areas to earn enough to meet their basic needs. This may partly explain the persistence of the levels of underemployment in Latin America.

Even so, the level and rate of absorption in the urban formal sector have been high in Latin America.[4] In the period 1950-1980 the annual cumulative growth rate of employment in the sector reached 3.7%. This is almost double that recorded in the devoloped capitalist countries —1.8% in 1960-1980—, if it is assumed that all the absorption of labour in the industrial and services sectors in these countries corresponds to the urban formal sector.

The rate of 3.7% for Latin America is based on a rise of 4.5% in the group B countries, 3.9% in group C and 2.5% in group A, all of which figures are considerably higher that those registered in the developed capitalist countries.

It is therefore neither dynamic insufficiency, nor incapacity to absorb labour in the predominantly urban sectors, nor failure to absorb in the urban formal sector, that characterize the economic evolution of Latin America. The persistence of underemployment is not explained by the action of any of these factors.

There has also been high growth in employment in the urban informal sector, as a result of the rapid increase in the urban labour force. In 1950-1980 the rise in employment in the urban informal sector[5] was similar to that of the urban EAP and to that of the urban formal sector (3.7%). This means that there has been no change throughout 30 years in the urban employment structure. In 1950 the urban informal sector represented 30.8% of the urban EAP. In 1980 it still amounted to 30.2%.

By groups of countries, growth in the period 1950-1980, was slightly higher in the formal than in the informal sector. In group A the formal sector grew by 2.5% and the informal by 2.3%; in group B the rates were 4.5 and 4.3%, and in group C, 3.9 and 3.6%.

In the United States the urban informal sector accounted for 36.6% of non-agricultural employment in 1900, falling to 21.5% in 1920 and 15.5% in 1960. Between 1900 and 1920 non-agricultural employment in the United States rose at an annual cumulative rate of 3% and the urban informal sector at 0.3%. Between 1910 and 1960 non-agricultural employment rose at an annual cumulative rate of 1.9% and the urban informal sector at 0.6%.

The fall in the proportion of the urban informal sector in the United States was not due to greater absorption in the formal sector, but to the lower rate of growth of the urban labour force.

The growth rate of non-agricultural employment in Latin America between 1950 and 1980 amounted to 3.7%, while for the United States it was 3.5% between 1870 and 1900, 2.9% between 1900 and 1920, 2.1% between 1920 and 1950, and 1.8% between 1950 and 1980. Its rates are always lower than those of Latin America and constantly on the decline. The differences between Latin America and the United States as regards the behaviour of the urban informal sector are due to the differences in the growth of the labour force, and especially the urban labour force (see table 5).

Table 5
GROWTH OF NON-AGRICULTURAL LABOUR FORCE

	Latin America (14 countries)	United States
1950-1980	3.7	
1870-1900		3.5
1900-1920		2.9
1920-1950		2.1
1950-1960		1.7

Source: Latin America: PREALC (1980); United States: Lebergott (1964).

The persistence of the informal sector in the urban employment structure is a useful factor for understanding the scant decline of underemployment in Latin America. The high

[4] This excludes self-employed workers and unpaid family workers in the non-agricultural EAP and includes professionals and technicians categorized as self-employed workers.

[5] Non-agricultural self-employed workers and unpaid family workers, excluding professionals and technicians.

growth rate of this sector does not stem from dynamic insufficiency or from the incapacity of the urban formal sector to absorb labour, but from the high growth rate of the urban labour force.

The importance of the urban informal sector explains the differences in productivity in the services sector. Both in Latin America and in the developed capitalist countries the greatest increases in employment, between 1960 and 1980, occurred in the services sector. In both cases, they are almost double the total growth of employment.

As a result of a swollen urban informal sector, the productivity of services is much lower in Latin America than in the developed capitalist countries; in 1980 it was almost four times higher in the latter countries. In contrast, the productivity of the industrial workforce was only 2.5 times higher in the developed capitalist countries, owing to the unique role they have been called upon to play in the creation and incorporation of technical innovations and the differences in the industrial structure.

In Latin America in 1980 group A, with the urban informal sector accounting for 23% of the urban labour force, had a level of productivity of the services sector of US$ 5 738 at current prices (see table 6). Group B, with 31.5% of urban informal sector, had a productivity of US$ 3 036. US$ 4 231. Group C, with 44.5% of urban informal sector, had a productivity of US 3 036. Thus, group A, whose proportion of workers in the urban informal sector was only half that of group C, had close on double the latter's productivity in the services sector.

The differences in the growth of the labour force, especially in urban areas, are factors that account for underemployment. Between 1950 and 1980 the Latin American labour force grew at an annual cumulative rate of 2.4% and the non-agricultural urban force at a rate of 3.7% (PREALC, 1980). Between 1960 and 1980 the labour force in Latin America increased at a cumulative 2.8% per annum and the urban labour force at 4.2% (World Bank, 1982). For the same period (1960-1980) the developed capitalist countries recorded an annual growth of the labour force of only 1.2% and 1.8% for the non-agricultural workforce, figures which are much lower than those of Latin America. Indeed, in the socialist countries of eastern Europe the labour force increased by only around 1% per annum between 1960 and 1980.

Table 6
PRODUCTIVITY OF LABOUR FORCE
IN CURRENT DOLLARS

	Agri-cultural	Indus-trial	Servi-ces	Total
Group A				
1960	496	1 162	1 213	1 017
1980	4 291	9 613	5 738	6 520
Group B				
1960	209	1 162	1 009	613
1980	1 319	5 515	4 231	3 625
Group C				
1960	166	585	869	388
1980	654	3 575	3 036	1 939
Latin America				
1960	232	1 083	1 055	633
1980	1 424	6 125	4 459	3 891
Developed capitalist countries				
1960	918	2 804	3 265	2 700
1980	7 604	15 793	16 506	15 719

Source: PREDESAL, based on data from World Bank (1982 a).

For a better understanding of the importance of the increase in the labour force, and above all the urban labour force, in Latin America, we need only note that during this century the annual growth of the labour force in the United States has been around 1.6% while in countries like Germany, Belgium, France, Italy and the United Kingdom the rate has been less than 1% during the same period.

In the history of the United States there was a period of growth (1870-1900) very similar to that of Latin America, when the labour force increased at an annual cumulative 2.7% and the non-agricultural workforce at 3.5%. This was due to the impulse given by the great international immigrations —the total population grew at a rate of barely 2%— with employment assured for the newcomers. The industrial revolution of the United States attracted immigrants who found suitable jobs there (table 7).[6]

[6] According to V. Tokman (1982), the fact that in the United States the proportion of agricultural labour has fallen from 55% to 35% and that the growth of the total and urban

Table 7
GROWTH OF LABOUR FORCE

		1900-1950	1960-1970	1970-1980
	1950-1980			
Latin America (14 countries)	2.4			
	1870-1900			
United States	2.7	1.6	1.8	1.5
United Kingdom		0.7	0.6	0.3
Italy		0.6	−0.1	0.7
Germany		0.8	0.2	0.7
	1913-1947			
Japan	0.7	—	1.9	1.3
Sweden		1.0	1.0	1.3
France		0.1	0.6	1.1
Netherlands		1.5	1.6	1.3
	1895-1946			
Belgium	0.3		0.3	0.7
	1895-1914			
Argentina	3.7		1.3	1.2

Source: For 1960-1970 and 1970-1980: World Bank (1982a); for Latin America 1950-1980: PREALC (1980) and Kuznets (1961); for Argentina 1875-1914: Clark (1957); for United States 1870-1900: Lebergott (1964).

Something similar occurred in Argentina: between 1895 and 1914 the total labour force grew at an annual cumulative rate of 3.7%, and the urban workforce undoubtedly increased even faster. But Argentina was also a country with vast empty spaces, which encouraged immigration by assuring employment of reasonable productivity.

By contrast, in Latin America similar growth rates of the urban labour force are due not only to urban attraction caused by the city's own economic dynamism but also to rural expulsion as a result of the economic and power relations typical of the region's agriculture. Where these expulsive factors exist, this means that the increased urban labour force has no assured productive employment in the urban areas, as would apply in the case of international migration. And it is this high growth rate of the urban workforce that explains the persistence of the informal sector in the urban labour force and the high rate of growth of its activities.

As the growth of the urban workforce is lower in group A (a cumulative annual rate of 2.5%) than in groups B (4.4%) and C (3.8%), it might be inferred that this group was in a better position to solve the underemployment problem. However, the lack of dynamism prevented any such improvement. In the countries of groups B and C, for their part, which had greater economic dynamism, there was a notably faster increase in the urban labour force.

The growth of the urban workforce is the result of the natural increase of the population and of the internal migration flows from rural to urban areas.

Between 1950 and 1980 the Latin American population grew at an annual cumulative 2.9%, whereas in the developed capitalist countries between 1960 and 1980 the corresponding figure was 0.9%. This growth was due to the fall in mortality, coupled with persistently high birth rates, owing to the improvement in health services and nutrition. The fertility rate continued

labour force presents rates similar to those of Latin America in 1950-1980 proves that the growth of the urban workforce is of less importance for the employment problem. With a different thesis and interpretation, our study has been based on the methodology of this author.

to rise as income levels fell; the proportion of rural population was higher, and the level of education was lower, especially among women. This is the cause of the differences between Latin America and the developed capitalist countries. In 1980 the per capita product in Latin America was five times lower than that of the developed capitalist countries and the region's rural population amounted to 41% as against 22% in the latter countries. The same differences occur between Latin American countries. In group A, with its higher income and smaller proportion of rural population, the rates of population growth are lower than in groups B and C.

Population growth is closely linked with the general development of the region. The higher levels of income, urbanization and female education produced by development will make possible a decline in the birth rate and thereby lower natural growth of the population and hence of the workforce. In Latin America the countries with higher levels of income and urbanization and lower levels of illiteracy, such as Uruguay and Argentina, have very much lower population growth rates than the other Latin American countries.

The rural-urban migrations are caused by both urban attraction and rural expulsion. These migratory flows are universal in Latin America and account for 38% of the growth of the urban workforce. Urban attraction is so strong that in some countries of the region urbanization even precedes industrialization. In the last 30 years, however, industrialization has generated conditions of attraction which have fostered internal migration.

In countries like Peru, even the fact of being among the 30% of lowest-income families in Lima has meant an income 5.4 times higher than that obtained by the 30% of lowest-income families in the rural *sierra* (Couriel, 1981).

Migration in the developed societies does not mean high growth rates in the urban workforce, because of the small proportion of rural population; in these countries the rural population amounted to 22% of the total population in 1980, and those employed in agriculture constituted only 6% of the total labour force.

In Latin America, by contrast, because of the larger proportion of rural population and agricultural workers, internal migration swells the urban workforce and hampers its absorption in full-time productive employment at determined levels of productivity. Besides the factors of urban attraction, account must also be taken of the factors of rural expulsion,which stimulate this migration. The characteristics of agricultural modernization and the prevailing power relations have a decisive incidence on expulsion from the rural areas. Agricultural modernization expels manpower through two mechanisms. On the one hand, the advance of modernization has caused the transfer of part of the peasant sector to marginal land of inferior quality. This transfer has taken various forms, many of them coercive, as a result of the power relations in the rural areas which affect the peasant sectors. Expelled from their land, these peasants find it more difficult to produce the basic foods for their family group and are obliged to supplement their income with other occasional work, or to emigrate to other regions, particularly the cities. The need to eat forces them to emigrate. In Peru, the achievement of literacy by the younger generation in the rural *sierra* gives them a passport to emigrate to urban areas.

On the other hand, with the modernization of agriculture in Latin America the growth in production is lower than in the urban areas, and the level of labour absorption is particularly low. Between 1950 and 1980 employment in the modern rural sector grew hardly at all, with an annual cumulative rate of 0.5%. There can be no doubt that this reflects the techniques applied in the region, which involve extensive mechanization and little irrigation,thus affecting the absorption of labour. The use of techniques unsuited to the combination of resources in the region is also explained by the relations between agriculture and industry and the action of the State. The meagre production of capital goods and the lack of creation and adaptation of technology in Latin American industry have hampered the promotion of agricultural techniques adapted to the abundance of land and labour. Hence techniques have been adopted that were devised in the developed countries, where labour is scarce, and these have proved inefficient in the conditions of the region. Moreover, through the instruments of economic policy it has applied (tariffs, taxes, prices and credits), the State has promoted the use of techniques involving overcapitalization in

relation to the local resource endowment.

The features of power relations in Latin America, particularly in rural areas, affected the peasant sectors, which have not benefitted as they should from land distribution, water supply, access roads, financial and technical assistance, price ratios, or wage levels when they undertake occasional labour.

Even in countries in which extensive agrarian reforms were implemented, such as Peru and Chile, large sectors received no benefit from the measures of the State. In Peru, the agrarian reform of 1969 failed to reach 75% of the agricultural population, which did not enjoy the advantages of the policies of land reform, prices credit and technical assistance. In Chile close on 80% of the agricultural labour force had no share in the redistribution of land.

There is indubitably a basic problem here: the man/land ratio is very high and it was difficult to include the whole of the farming population in these two agrarian reform processes. But there are also styles of management, forms of modernization, and priorities in the use of economic policy instruments which are detrimental to the traditional rural sector, such as self-employed workers and smallholders. All this has a decisive influence on the expulsion of rural population to the urban areas; moreover, their own natural growth raises the man/land ratio and makes the food situation still worse.

To sum up, the factors of rural expulsion are a primary cause of the growth of the urban workforce and the growth in employment in the urban informal sector. Further, the conditions of rural expulsion do not ensure productive employment in the city, in contrast with what occurred in the United States between 1870 and 1900, when it was the international migrations which accounted for the increase in the urban labour force.

Thus, the evolution of Latin American agriculture and its forms of modernization are factors that explain the persistence of underemployment in the region. In the period 1960-1980 the performance of agriculture was relatively dynamic. The agricultural product rose at an annual cumulative rate of 3.4% as against 6% for the non-agricultural product. Compared with the developed capitalist countries, the increase in agricultural production in Latin America was two points higher: 3.4% as against 1.4%.

During the same period, the growth of employment in agriculture in Latin America was much lower than that of the non-agricultural sectors: an annual cumulative 0.7% compared with 4.3%. The low absorption capacity of agriculture has a powerful influence also on the continuing underemployment in the region. The developed capitalist countries, with a very low proportion of their workers employed in agriculture, expelled labour at an annual cumulative rate of -3.9% in the same period.

The low capacity of agriculture for absorption is of interest in understanding the trend of the productivity levels of the agricultural labour force. For Latin America as a whole, this productivity rose at rates above those of the industrial and services sectors. Between 1960 and 1980 it achieved an annual cumulative 2.7% in comparison with 2.2% in the industrial sector and 1.3% in services.

In group A, in which the proportion of workers in agriculture is very low, the rise in productivity of the agricultural labour force reached an annual cumulative rate of 3%, because agricultural employment fell in absolute terms at a rate of -0.3%. In group B, since the absorption of labour in agriculture is very low (0.5%), there was also a greater rise in the productivity of the agricultural labour force than in that of the other sectors: 3.2% compared with 2.5% in industry and 1.7% in services. In group C, however, where the levels of agricultural employment remain higher, the increase in the productivity of the agricultural labour force was lower than that of the industrial sector.

The dynamism of agricultural production is undoubtedly the result of production increases in the modern sector. The absorption of labour, however, has been insufficient in this sector; in 1950-1980 the rate was an annual cumulative 0.5% which meant a relative decline in the proportion of workers in the modern rural sector in relation to the total employed in agriculture (40.5% in 1950 and 35.2% in 1980).

The low capacity for absorption of labour in the rural modern sector is observable in all three groups of countries. In group A employment declined in absolute terms (an annual cumulative -1.1%), in group B it rose by only 1%, and in

group C it went down by an annual cumulative -1.5%. This low capacity may be due to changes in land use and to the application of technologies that make little use of labour, which may imply a trend away from labour-intensive crops to others with less demand for manpower.

Among the technologies applied in the agricultural sector, we regard as basic the use of fertilizers, irrigation and mechanization. The first two may be considered labour-absorbing techniques. Mechanization, for its part, does not usually improve the productivity of the land, but it does improve that of labour, with the result that it displaces this abundant resource.

Fertilizer use in Latin America amounts to 15 tons per 1 000 hectares of arable land, as against 54 in the United States and 504 in the Netherlands. In Latin America irrigation covers 8.3% of the arable area, in the United States 11% and in Japan 67%. As regards the number of tractors per 1 000 arable hectares, Latin America has 5.1, the United States 25, Japan 225 and the Netherlands 207 (table 8).

Since the region does not create technology, it copies the techniques of the developed countries, which have a different resource endowment. In 1980, for example, while Latin America had 35% of its labour force in the agricultural sector, the corresponding figures were 2% in the United States and 6% in the Netherlands. This explains why the developed countries are interested in mechanizing agriculture. In the United States, in 1980, 2 142 tractors were in use per 1 000 members of the agricultural EAP, and 608 in the Netherlands. In Latin America, in contrast, 21 tractors per 1 000 members of the agricultural EAP were in use. Although the level of application of agricultural techniques is much lower in Latin America, it might have been more advantageous, in view of the available resources, to develop irrigation and fertilizer use rather than the use of tractors. The lack of labour absorption in the rural modern sector may be the reflection of mechanization, even encouraged by State-administered economic policy instruments such as tariffs, taxes, exchange rates and credit, which have given rise to price ratios more favourable to the use of machinery than of manpower.

Table 8
AGRICULTURAL TECHNOLOGY, 1980

	Cereal yield/ hectare	Cereals		% irrigated area	Fertilizers		Tractor (units)	
		Agric. EAP	Tractors		Tons/1 000 arable hectares	1 000 agric. EAP	1 000/ arable hectares	1 000 agric. EAP
United States	4 162	135.6	0.06	10.8	54.2	4 639.5	25.0	2 142.0
Bulgaria	3 854	5.3	0.13	28.6	100.6	272.0	14.8	40.0
Japan	5 272	2.2	0.01	66.6	159.2	117.5	224.5	165.7
Netherlands	5 688	4.4	0.01	31.9	504.6	1 659.1	206.7	607.5
Mexico	1 918	1.6	0.10	22.0	35.6	114.6	4.9	15.8
Brazil	1 329	1.8	0.08	2.9	12.7	52.0	5.2	21.2
Argentina	2 204	13.0	0.09	4.5	1.7	43.4	5.8	150.0
Colombia	2 390	1.3	0.11	5.5	26.9	68.4	4.9	18.0
Venezuela	1 882	1.8	0.04	8.5	26.1	118.3	6.3	4.0
Costa Rica	2 207	1.0	0.04		80.4	152.7	9.9	22.0
El Salvador	1 737	0.8	0.18		71.3	68.3	4.6	4.4
Guatemala	1 524	0.9	0.26	3.8	32.1	48.8	2.2	3.3
Latin America		1.8	0.09	8.3	15.0	61.6	5.1	21.0
Group A		6.8	0.07	7.0	5.8	83.3	6.3	91.2
Group B		1.7	0.09	7.9	19.3	70.4	5.1	18.6
Group C		0.6	0.15	13.9	17.6	31.4	0.5	3.7

Source: PREDESAL, based on FAO (1981).

This may be another manifestation of the lack of planning of resource use in Latin America.

The nub of the underemployment problem in Latin America lies in the high proportion accounted for by the traditional rural sector in agriculture, the increase in self-employed workers and the high proportion of peasants who do not improve their productivity or income on their farms.

While employment in the agricultural modern sector in the period 1950-1980 went up by only an annual cumulative 0.5%, the traditional rural sector increased its manpower by 1.2%, so that its share of the total employed in agriculture rose from 59.4% in 1950 to 64.8% in 1980.

The process of modernization and economic growth in the region has not done away with the contingent of self-employed agricultural workers. Indeed, they have increased their share in agriculture, but owing to the mass migration to urban areas their share in the total labour force declined from 32.5% in 1950 to 22.6% in 1980. For the same reason, the proportion of rural underemployed in the total of underemployed fell from 70.5% in 1950 to 53.8% in 1980.

Thirty years of agricultural modernization have not absorbed them. Population growth, and in some cases the expulsion to marginal land, prevents them from producing enough food owing to the rise in the man/land ratio. They emigrate to the cities, but this merely converts them from self-employed agricultural workers into self-employed urban workers and from rural underemployed into urban underemployed.

They might be able to improve their productivity and income levels in their own establishments or on new land that might be given them, but in most of the countries the power relations have prevented them from deriving real benifit from agrarian policies. In general, they have also suffered from the prevailing policies concerning prices, credit and technical assistance.

The presence of these self-employed agricultural workers explains the differences in productivity between the three groups of Latin American countries, especially in agriculture and services.

In 1980 group A, with a very low level of poverty and only 9% of its total labour force employed in the traditional rural sector, registered a level of productivity of its agricultural labour force 6.6 times higher than that of group C, which had 35% of its workers in the traditional rural sector. In group B, with 24% in the traditional rural sector, the productivity of the agricultural labour force was twice that of group C. The proportion of workers employed in the traditional rural sector is the most pertinent factor in these differences in labour productivity.

The existence of the traditional rural sector explains why the differences in productivity of the agridcultural labour force are greater, between the three groups of countries, than those of the labour force in the industrial and services sectors.

The same applies in the comparison between Latin America as a whole and the developed capitalist countries. In 1980 the productivity of the agricultural labour force in the developed capitalist countries was 5.3 times higher than that of Latin America, that of their services sector was 3.7 times higher, owing to the presence of the urban informal sector, and that of their industrial sector was 2.6 times higher.

The productivity of the services labour force in the developed capitalist countries is higher than that of the industrial sector. In contrast, in Latin America the presence of the urban informal sector, largely owing to rural-urban migration, leads to lower labour productivity in the services sector than in the industrial sector, both for the region as a whole and for each of the groups of countries analysed.

In agriculture, a high proportion of the traditional peasant sector scrape along on their holdings, working at low levels of productivity on plots too small to incorporate technical advances, with meagre incomes which they normally have to supplement by working as semiproletarian labourers outside their farms. The total income they receive is not enough to satisfy their minimum basic needs.

Another portion of the peasantry has been expelled from their land by the penetration of capitalism and modernization in the rural areas and has either had to move to land of poorer quality, less extensive, with a probable increase in the man/land ratios which weakens still further their food situation, or else they have emigrated to the city and joined the urban informal sector.

The presence of this peasant sector explains

also the low agricultural wages, since they function as a reserve army. To the extent that emigration to the city augments the urban informal sector, it also has an indirect impact on the low wage levels in the urban areas themselves.

III

An analysis of the Latin American countries that have improved their employment situation

The evolution of the Latin American countries in which levels of underemployment have declined confirms the thesis presented in the preceding section concerning the main causes of the persistence of underemployment. Mexico, Panama and Guatemala improved their situation by over 10 points in the 30 years considered; Colombia, Costa Rica and Venezuela reduced underemployment by between 5 and 10 points; Chile and Brazil improved by less than 5 points in the said period; the rest maintained their proportion of underemployed or even increased it.

The importance of agriculture is noticeable in the countries in which there was the greatest fall in underemployment. In those where in 1950 over a third of the labour force was engaged in the traditional rural sector (Mexico, Panama, Guatemala and Colombia), the underemployment situation has improved because the modernization of agriculture absorbed manpower and the modern rural sector increased its share in the total of those employed in agriculture. In these cases the evolution of the informal urban sector in the total number of urban employed is

Table 9

MEXICO, BRAZIL, COLOMBIA, PANAMA AND GUATEMALA: EMPLOYMENT INDICATORS

	Mexico		Brazil		Colombia		Panama		Guatemala	
	1950	1980	1950	1980	1950	1980	1950	1980	1950	1980
% underemployed	56.9	40.4	48.3	44.5	48.3	41.0	58.8	45.5	61.0	50.9
Traditional rural/total	44.0	18.4	37.6	27.6	33.0	18.7	47.0	24.6	44.8	33.1
% rural population	53.9	29.3	69.2	46.0	63.6	37.9	64.6	46.5	76.0	58.4
% agricultural employment	64.4	37.6	60.1	37.4	59.2	34.5	53.2	33.7	68.5	55.4
Traditional rural/ agricultural	68.3	49.0	62.6	73.8	55.3	54.2	88.4	73.0	65.4	59.8
Urban informal/urban	37.4	35.8	27.3	27.3	39.0	34.4	25.3	31.6	51.6	40.0
% rural underemployed/underemployed	77.3	45.5	77.8	62.0	68.3	45.6	79.9	54.1	73.4	66.2
Growth 1950-1980										
Total population	3.4		2.9		2.9		2.8		3.1	
Urban population	4.9		4.9		4.8		4.2		5.0	
Rural population	1.4		1.5		1.6		1.7		2.2	
Total EAP	2.5		2.8		2.4		2.7		2.5	
Urban EAP	4.5		4.4		4.1		3.9		3.7	
Agricultural EAP	0.7		1.2		0.5		1.2		1.8	
Urban formal employment	4.6		4.4		4.4				4.5	
Urban informal employment	4.4		4.4		3.7				2.8	
Agricultural modern employment	2.3		0.1		0.6		4.1		2.3	
Agricultural traditional employment	−0.4		1.8		0.4		0.6		1.6	

Source: PREALC and ECLAC for data on total, urban and rural population.

Table 10
MEXICO, BRAZIL, COLOMBIA, PANAMA AND GUATEMALA: ECONOMIC INDICATORS

	Mexico		Brazil		Colombia		Panama		Guatemala	
	1960	1980	1960	1980	1960	1980	1960	1980	1960	1980
Product per capita[a]	326	2 090	336	2 050	258	1 180	384	1 730	262	1 080
Total productivity[b]	640	4 683	624	3 517	516	1 846	738	3 363	514	1 991
Agricultural productivity[b]	186	1 301	192	1 172	334	1 988	335	1 993	250	1 014
Industrial productivity[b]	928	6 844	1 485	5 421	706	2 637	1 100	3 429	532	
Services productivity[b]	1 408	6 408	926	4 052	688	1 463	1 181	4 014	1 432	4 324
Employment growth 1960-1980										
Total	3.2		3.3		3.7		2.9		3.4	
Agricultural	1.1		0.3		0.3		−0.3		2.4	
Industrial	4.6		5.4		4.2		4.2		5.5	
Services	5.4		4.7		6.7		5.3		4.6	
GDP growth 1960-1980										
Total	6.2		6.9		5.5		5.9		5.6	
Agricultural	3.0		4.1		4.2		3.8		4.4	
Industrial	7.8		7.8		5.4		6.0		7.7	
Services	5.9		7.5		6.5		6.6		5.5	
Productivity growth 1960-1980[b]										
Total	2.9		3.4		1.7		3.0		2.1	
Agricultural	1.9		3.8		3.9		4.2		2.0	
Industrial	3.1		2.2		1.1		1.7		2.1	
Services	0.5		2.6		−0.1		1.3		0.8	

Source: PREDESAL, based on data from World Bank (1982a).
[a]Current dollars.
[b]Productivity of labour force.

less important; in Panama there was even a decline in underemployment owing to the absorption capacity of the modern rural sector, despite the fact that the informal sector increased its percentage among the urban employed.

In countries like Peru, El Salvador and Bolivia, which in 1950 had more than a third of their labour force in the traditional rural sector, notwithstanding the fall in the share of the informal sector in the total of urban employed, the incapacity of the rural modern sector to absorb labour was determinant in the maintenance or increase of underemployment in the 30 years considered.

In those countries in which less than a third of the labour force was in the traditional rural sector, the evolution of urban employment helped to alleviate underemployment, as occurred in Costa Rica and Venezuela.

Mexico is the country in which there was the greatest decline in underemployment during the period, amounting to 17 points in 30 years (from 56.9% in 1950 to 40.4% in 1980). The poverty figures also fell significantly: 52% in 1963 to 34% in 1977 (PREDESAL, 1983). Mexico's economic growth was one of the most rapid in the region. Between 1960 and 1980 the gross domestic product rose by 6.2% per year, stimulated by the industrial sector (7.8%). On the demand side the growth of investment and government consumption played an important part. In 1960-1980, Latin America recorded a growth rate of 5.6% per year and the developed capitalist countries, 4.2%, both figures lower than the Mexican rate.

Table 11
ARGENTINA, URUGUAY, CHILE, COSTA RICA AND VENEZUELA:
EMPLOYMENT INDICATORS, 1950 AND 1980

	Argentina		Uruguay		Chile		Costa Rica		Venezuela	
	1950	1980	1950	1980	1950	1980	1950	1980	1950	1980
% underemployed	22.8	25.7	19.3	27.0	31.0	29.0	32.2	27.2	38.9	31.5
Traditional rural/rural	27.7	41.7	21.8	45.7	27.8	38.6	33.4	43.0	49.1	77.4
Traditional rural/total	7.6	6.3	4.8	8.0	8.9	8.8	20.4	14.8	22.5	15.1
% rural population	35.8	28.3	21.0	15.0	45.2	24.6	71.0	57.0	51.3	25.6
% agricultural employment	27.5	15.1	22.0	17.5	32.0	22.8	57.7	34.4	45.8	19.5
Urban informal/urban	21.0	23.0	18.6	23.1	35.1	27.1	29.3	19.0	32.1	20.8
% rural underemployed/ underemployed	33.3	24.5	24.9	29.6	28.7	30.4	62.4	54.4	57.8	47.9
Growth 1950-1980										
Total population	1.8		1.2		2.4		3.8		3.7	
Total EAP	1.4		0.8		1.6		3.2		3.1	
Urban population	2.2		1.4		3.5		5.2		5.2	
Urban EAP	1.4		0.8		1.6		4.8		4.6	
Rural population	1.0		-		0.3		3.1		1.3	
Agricultural EAP	−0.6		-		0.5		1.5		0.02	
Urban formal employment	1.3		0.8		2.6		5.2		5.1	
Urban informal employment	1.7		1.5		0.7		3.3		3.1	
Modern agricultural employment	−1.3		−1.2		−0.1		1.1		−2.7	
Traditional agricultural employment	0.7		2.5		1.6		1.9		1.5	

Source: PREALC and ECLAC for data on total, urban and rural population.

The growth of employment was also high in relation to the international rate. Total employment and that of each of the sectors rose at higher rates than those of Latin America as a whole and the developed capitalist countries. Mexico did not suffer from insufficient dynamism and achieved high labour absorption in the modern urban sector, which grew at the notable annual cumulative rate of 4.6% between 1950 and 1980. As in Latin America as a whole, the growth of the informal urban sector was very high and almost equal to that of the modern urban sector. Thus, informal employment grew at an annual cumulative 4.4%, owing to the high growth rate of the urban workforce. The growth rates of the population, especially the urban, were also very high. Between 1950 and 1980 the population as a whole grew at an annual cumulative rate of 3.4%, the urban polulation at 4.9% and the urban economically active population at 4.5%. This high growth of the urban workforce, influenced by the rural-urban migrations, was a determining factor in the high growth rate of employment in the urban informal sector.

The great difference between Mexico and the Latin American countries as a whole lies in the evolution of agriculture. The agrarian transformation in the last 50 years and the style of agricultural modernization created a greater capacity for absorption in the modern rural sector, which explains the fall in underemployment and poverty.

Employment in modern agriculture grew at an annual cumulative rate of 2.3% between 1950 and 1980, while in Latin America the growth rate was barely 0.5%.[11] At the same time, the

[11] In the period 1946-1948 to 1976-1978 the growth rate of the direct labour demand, according to the demand of the 21 principal crops, reached 1.9%. The growth of the area cultivated led to an increase of 2.8% in the demand for labour, while the effect of mechanization produced negative growth of -0.8%. The composition of the crops through changes in land use only generated negative growth in the direct demand for labour (-0.1%).

traditional rural sector in Mexico declined in absolute terms at a rate of -0.4%, while in Latin America it grew at an annual cumulative rate of 1.2%. Employment in the rural modern sector expanded in Mexico from 31.7% of the total employed in agriculture in 1950 to 51% in 1980. The incorporation of new land influenced labour absorption in the modern sector. The modernization of agriculture was based on the introduction of labour-intensive techniques. The area irrigated reached 22% of the total arable area in 1980, as against an average of 8.3% for Latin America. The use of fertilizers per arable hectare and per unit of the economically active population was almost double the Latin American average. Mechanization was intensified only from 1973 onwards.

In essence the fall in underemployment was due to the dynamism of agriculture and especially to the forms of modernization, which made possible greater absorption in the modern agrarian sector and an absolute reduction in the number of self-employed agricultural workers. Hence the productivity of the agricultural labour force rose less than that of the industrial workforce, in contrast to what happened in Latin America as a whole.

Over the period 1960-1980, the productivity of the Mexican agricultural labour force rose by 1.9% per year while the growth in industry was an annual cumulative 3.1%. In Latin America the corresponding figures were 2.7% and 2.3% respectively.

In *Panama* there was also a notable decline in underemployment, with marked economic dynamism, and once again the conditions of

Table 12

ARGENTINA, URUGUAY, CHILE, COSTA RICA AND VENEZUELA: ECONOMIC INDICATORS, 1960 AND 1980

	Argentina		Uruguay		Chile		Costa Rica		Venezuela	
	1960	1980	1960	1980	1960	1980	1960	1980	1960	1980
Product per capita[a]	538	2 390	439	2 810	492	2 150	412	1 730	1 003	3 630
Total productivity[b]	840	7 502	685	4 614	863	4 080	825	3 801	1 966	7 325
Agricultural productivity[b]	672	7 443	621	4 194	288	1 504	422	2 227	337	2 442
Industrial productivity[b]	887	9 512	662	4 756	2 199	7 943	864	4 782	1 963	40
Services productivity[b]	878	6 561	726	4 616	673	3 685	1 487	4 281	3 294	6 260
Employment growth 1960-1980										
Total	1.4		0.6		2.4		3.7		3.8	
Agricultural	−0.7		−2.6		0.04		0.8		0.5	
Industrial	0.1		1.1		2.1		4.7		4.9	
Services	2.9		1.3		3.5		6.2		5.1	
Product growth 1960-1980										
Total	3.2		2.3		3.4		6.1		5.5	
Agricultural	2.4		1.0		2.4		4.1		4.8	
Industrial	3.8		3.1		2.5		8.8		3.8	
Services	3.0		2.3		4.3		5.8		6.9	
Productivity growth 1960-1980[b]										
Total	1.8		1.7		1.0		2.3		1.6	
Agricultural	3.2		3.7		2.3		3.3		4.3	
Industrial	3.6		2.0		0.4		3.9		1.0	
Services	0.1		1.0		0.8		−0.3		1.7	

Source: PREDESAL, based on data from World Bank (1982).

[a]Current dollars.

[b]Productivity of labour force.

growth in agriculture explain the improvement. The percentage of underemployed went down from 58.8% to 45.5% between 1950 and 1980 (more than 13 points), while the growth of the product in 1960-1980 was 5.9% per year, a little higher than the Latin American average. The main reason for this was the intense growth in the production of the urban sectors (6.6% in services and 6% in the industrial sector), which also registered a high rate of expansion in employment (5.3% and 4.2%) although the growth rate was higher in the informal than in the formal sector. Thus, the proportion of employment accounted for by the informal urban sector rose from 25.3% in 1950 to 31.6% in 1980, partly also as a result of the high growth rate of the urban workforce (an annual cumulative 3.9%).

The decline in underemployment is explained by the characteristics of the evolution of agriculture. Whereas in the modern agricultural sector employment increased at a rate of 4.1% between 1950 and 1980, the traditional sector's growth rate was only 0.6%. Thus, despite the mass migrations, the modern rural sector increased its share not only in the total of those employed in agriculture, but also in the total labour force.

In *Guatemala* likewise there was a decline in underemployment and great dynamism in the economy. Underemployment fell by around 10 points (from 61% in 1950 to 50.9% in 1980). The product grew by 5.6% per year in the period 1960-1980, the industrial sector leading with 7.7%. Employment expansion was marked in the agricultural sector as well as in the rest. The formal urban sector showed a high capacity for labour absorption and grew at a rate of 4.5%, compared with employment increases in the urban informal sector of 2.8%. There was a notable diminution in unemployment in the urban areas, but owing to its weight in total employment, the evolution of agriculture was determinant in the fall in the levels of underemployment. Thus, the modern agricultural sector expanded its employment at an annual cumulative rate of 2.3% while in the traditional rural sector the annual cumulative growth rate was 1.6%. The agricultural product increased considerably compared with international rates. Between 1960 and 1980 it rose at a cumulative 4.4% per annum, while in Latin America the rate was 3.4% and in the developed capitalist countries, 1.4%.

The absorption capacity of the modern rural sector was also due to the nature of the agricultural modernization process followed, the use of labour-absorbing techniques which largely explains the fall in underemployment. Thus, in 1980 32.1 tons of fertilizers were used per 1 000 arable hectares as against 15 tons for Latin America as a whole, whereas the number of tractors used was lower: 2.2 tractors per 1 000 arable hectares in 1980 as against 5.1 for Latin America. Hence in Guatemala the productivity of the agricultural labour force rose at almost the same rate as that of the industrial sector.

In *Colombia* also there was a fall in underemployment along with great economic dynamism. Underemployment went down by around 7 points, falling from 48.3% in 1950 to 41% in 1980. The product rose at an annual cumulative rate of 5.5%, with high rates in the various sectors. Agricultural production grew by 4.4%, industry by 5.4%, and services by 6.5% (cumulative annual rates for the period 1960-1980). There was a notable rise in employment, particularly in the non-agricultural sectors. In the formal urban sector the employment growth rate was 4.4% between 1950 and 1980, i.e., higher than that of the informal urban sector (3.7%). Urban underemployment declined, despite the fact that the urban EAP grew during the period at a cumulative rate of 4.1% per annum.

Owing to the high proportion of the total labour force employed in agriculture, the evolution of this sector is very relevant. Its share in the labour force fell from 59.2% in 1950 to 34.5% in 1980.

Employment in the modern agricultural sector grew at the rate of 0.6% per year, while the rate for the traditional rural sector was 0.4%. The structure of employment in agriculture remained practically unchanged. The forms of agricultural modernization and the considerable dynamism of this sector largely explain the decline in underemployment. The use of fertilizers per hectare of arable land was almost double that of Latin America as a whole, but there was a lower average of tractors per arable hectare and per unit of the agricultural EAP. Because of the heavy migrations to the towns, the productivity of the agricultural labour force in Colombia rose more than in the rest of the sectors.

Costa Rica began the period without the serious rural problems that beset the remainder of the region, since in 1950 the traditional rural sector represented only 20.4% of the total labour force. The evolution of the urban sector explains the trend of underemployment, which declined from 32.2% in 1950 to 27.2% in 1980. The product rose by 6.1% per year in the period 1960-1980, headed by the industrial sector (with a cumulative 8.8% per annum). There was also notable expansion in employment, especially in the non-agricultural sectors. In the formal urban sector the growth rate was 5.2%, which shows the high absorption capacity of the modern sector. The informal sector recorded an annual rate of 3.3%, and the total urban EAP a cumulative annual rate of 4.8%. As the proportion accounted for by the traditional rural sector was smaller, it is the high absorption capacity of the modern urban sector which accounts for the drop in underemployment.

The performance of the agricultural sector was dynamic during the period. Employment in the modern rural sector rose at an annual cumulative rate of 1.1%, while in the traditional sector the rate was 1.9%. The increase in underemployment in the rural sector was more than offset by the high absorption of the modern urban sector, thanks to the smaller proportion of the traditional rural sector in the total labour force.

The type of agricultural modernization carried out in Costa Rica resulted in fertilizer use per hectare five times as high as the Latin American average, with almost double the number of tractors per hectare, which accounts for a certain recession in the agricultural employment structure.

In *Venezuela*, as in Costa Rica, only 22.5% of the labour force was in the traditional rural sector in 1950. Hence the decline in underemployment, which fell from 38.9% in 1950 to 31.5% in 1980, was due more to the evolution of the urban areas. The product rose at an annual cumulative rate of 5.5%, which signified a marked rise in employment in the urban sectors. Employment in the modern urban sector grew at an annual cumulative rate of 5.1% and at 3.1% in the informal sector; the urban economically active population increased at an annual cumulative rate of 4.6%. These high rates explain the fall in underemployment.

There was great economic dynamism in agriculture, but in the modern rural sector employment levels fell in absolute terms at an annual cumulative rate of -2.7%, while employment in the traditional sector rose by 1.5% per year. The characteristics of the agricultural modernization process had an inevitable effect on the evolution of this sector's employment structure. Venezuela is one of the Latin American countries that uses most tractors per arable hectare, and this partly explains the low employment absorption in the modern agricultural sector. The evolution of agriculture is not decisive for underemployment, however, because of the smaller proportion of the traditional rural sector in the total labour force.

Brazil illustrates what has already been said about the region as a whole. Underemployment fell by less than four points in 30 years, despite intense economic growth (at an annual rate of 6.9% for the product and 7.8% for the industrial sector), which signified a notable expansion of employment in the urban areas. The formal urban sector displayed a high capacity for labour absorption growing at a cumulative 4.4% per annum between 1950 and 1980. The informal sector registered the same rate, owing to the great increase in the urban workforce, which also grew at a cumulative 4.4% per annum. This means that the urban employment structure remained unchanged, not through lack of dynamism, nor incapacity of the modern urban sector to absorb labour, but because of the massive increase in the urban labour force, swollen by the rural-urban migrations. In the agricultural sector the rate of economic growth was also high, but employment in the modern sector rose by barely 0.1%, while in the traditional sector it went up by a cumulative 1.8% per annum in the period 1950-1980. The features of the agricultural modernization process were responsible for the maintenance or limited decline in the level of underemployment. Irrigation covers only 2.9% of the arable area, compared with 8.3% for Latin America as a whole. The use of fertilizers per hectare and per unit of the agricultural EAP was less than the average for Latin America during this period, but the use of tractors was slightly higher than the Latin American average. Owing

to the style of modernization, the modern agricultural sector could not absorb labour and the number of self-employed rural workers increased, contributing to the high growth rate of the urban workforce and limiting the possibilities of improving employment in the urban areas, despite the high absorption capacity of the modern urban sector. The slight decline in underemployment was due to the relative fall in agricultural employment in the total labour force.

Chile is a typical case of dynamic insufficiency, beginning with a traditional rural sector which is very small compared with the total labour force. Underemployment fell by barely two points in 30 years. The per capita product went up by 1% per year, but there was no growth in per capita terms in the agricultural and industrial sectors. In the formal urban sector employment rose at a rate of 2.6%; in the informal at 0.7%. There was a considerable improvement in the urban areas, but this was counterbalanced by the style of agricultural evolution: a low rate of growth; a modern sector in which employment fell in absolute terms by an annual cumulative -0.1%, and a traditional rural sector in which employment rose at the rate of 1.6%. The persistence of underemploymnet can be attributed to the characteristics of the evolution of agriculture, and especially to the dynamic insufficiency observed in the Chilean economy in the period analysed.

IV

Analysis of the Latin American countries that have not reduced their underemployment levels

The countries whose levels of underemployment have remained unchanged or even risen can be subdivided into two groups. On the one hand, there are those that display dynamic insufficiency, such as Uruguay and Argentina, which started with a very low proportion of workers in the traditional rural sector, and Peru, which moreover faced critical problems in its rural areas owing to the high proportion of the traditional rural sector. On the other hand there are the countries which did not suffer from dynamic insufficiency, such as Ecuador, Bolivia and El Salvador, but began with more than a third of their labour force in the traditional rural sector, and where the rise in underemployment is essentially explained by the features of the agricultural modernization pattern.

Argentina and Uruguay, with a negligible proportion of workers in the traditional rural sector and very low population growth rates, also began with very low levels of poverty and underemployment. Between 1950 and 1980 the latter rose by three points in Argentina and by eight in Uruguay. Over the same period, the per capita product went up by barely 1.4% per year in Argentina, and the dynamic insufficiency intensified in 1970-1980, when the levels of underemployment rose and the per capita product increased only by an annual cumulative 0.6%. Between 1950 and 1970, by contrast, the proportions of underemployment had remained virtually constant (see table 11). In Uruguay underemployment grew because of dynamic insufficiency, with the gross per capita product going up only by an annual cumulative 1.1% between 1960 and 1980. In both cases, both in rural and in urban areas, the employment levels reached higher rates in the traditional and informal sectors than in the modern sectors.

In *Peru* some degree of dynamic insufficiency was combined with the agricultural problem. Underemployment fell from 56.3% in 1950 to 55.8% in 1980; that is, there was almost no variation in 30 years. The per capita product barely increased (annual cumulative rate of 1%) between 1960 and 1980, which shows a certain lack of dynamism. The growth of 3.9% in the product was due in particular to the urban sectors, which also registered the greatest increases in employment. In the formal urban sector employment went up at an annual cumulative rate of 4.2%, thus showing a high capacity for

absorption. As the growth of the urban workforce attained a cumulative rate of 3.8% per annum, the informal urban sector raised its employment levels at an annual 3.3%. In urban localities the underemployment situation improved and once again the central problem lay in the evolution of agriculture.

Agricultural production grew at a lower rate than the population. Employment in the modern sector fell in absolute terms at an annual cumulative rate of -1.2% between 1950 and 1980, while in the traditional rural sector it grew by 1.4%.

Even more significant is the fact that, after the agrarian reform of 1969, there was a rise in the proportion of workers in the traditional rural sector. This proportion was 64.3% of the agricultural employed in 1950, and it rose to 80% in 1980. Agriculture in Peru is characterized by a high man/land ratio. The agrarian reform, which achieved a certain impact on the old-established dominant sectors of rural society, brought no benefit to 75% of the agricultural labour force, which largely constitutes the traditional rural sector.

In *Ecuador* the economic growth was not sufficient to absorb the labour force either in the rural or the urban areas, thus resulting in higher levels of underemployment, which increased by close on 13 points in 30 years (from 50.7% in 1950 to 63.3% in 1980). The product grew at the rate of 6.5% per year, headed by the industrial sector and, in particular, by petroleum in the 1970s.

Despite this intense economic growth, the absorption capacity of the modern urban sectors was relatively low: employment in the formal urban sector rose at an annual cumulative rate of 2.9%. Since the urban EAP grew by 3.9%, the informal urban sector raised its employment levels at a comulative 5.3% per annum. In this case the usual high absorption of the labour force in the modern urban sector did not take place, as it did in the other countries of the region where there was high economic growth.

In rural areas the agricultural product grew rather more than the population and the modern sector increased its employment at the extremely low rate of a cumulative annual 0.3%. On the other hand, employment in the traditional rural sector expanded by 2.6% per year (from 59% of the total of agricultural workers in 1950 to 74%

Table 13

PERU, ECUADOR, EL SALVADOR AND BOLIVIA: EMPLOYMENT INDICATORS, 1950 AND 1980

	Peru		Ecuador		El Salvador		Bolivia	
	1950	1980	1950	1980	1950	1980	1950	1980
Percentage underemployed	56.3	55.8	50.7	63.3	48.7	49.0	68.7	74.1
Percentage rural population	68.7	47.2	72.5	55.8	72.4	63.9	74.2	58.1
Percentage employed in agriculture	61.3	40.0	66.4	51.6	67.5	52.4	72.7	56.1
Traditional rural/total	39.4	32.0	39.0	37.9	35.0	30.1	53.7	50.9
Traditional rural/agricultural	64.3	80.0	58.8	73.5	51.9	57.4	73.9	90.8
Percentage rural underemployed/underemployed	70.0	57.3	76.9	59.9	71.9	73.6	78.2	68.7
Urban informal/urban	47.0	40.5	35.3	52.8	42.6	39.3	62.3	56.5
Growth 1950-1980								
Total population	2.9		3.1		3.1		2.3	
Urban population	4.7		4.8		4.1		4.0	
Rural population	1.6		2.2		2.7		1.5	
EAP	2.1		2.7		2.7		1.5	
Urban EAP	3.8		3.9		4.1		3.3	
Agricultural EAP	0.7		1.8		1.8		0.6	
Urban formal employment	4.2		2.9		4.2		3.8	
Urban informal employment	3.3		5.3		3.9		3.0	
Modern agricultural employment	−1.2		0.3		1.4		−2.8	
Traditional agricultural employment	1.4		2.6		2.1		1.3	

Source: PREALC and ECLAC for total, urban and rural population.

Table 14
PERU, ECUADOR, EL SALVADOR AND BOLIVIA:
ECONOMIC INDICATORS

	Peru		Ecuador		El Salvador		Bolivia	
	1960	1980	1960	1980	1960	1980	1960	1980
Product per capita[a]	237	930	217	1 270	221	660	134	570
Total productivity[b]	455	2 048	418	2 736	426	1 477	244	2 055
Agricultural productivity[b]	158	410	208	684	220	798	104	740
Industrial productivity[b]	751	4 848	417	6 116	474	1 346	339	2 485
Services productivity[b]	797	2 348	945	4 323	996	2 848	568	4 188
Employment growth 1960-1980								
Total	2.9		3.0		2.7		2.3	
Agricultural	1.6		2.5		1.6		1.3	
Industrial	2.7		2.4		4.3		3.8	
Services	4.9		4.6		4.0		3.4	
GDP growth 1960-1980								
Total	3.9		6.5		5.0		5.0	
Agricultural	1.8		3.3		2.9		3.0	
Industrial	4.3		7.9		6.7		5.2	
Services	4.5		7.2		4.4		5.5	
Productivity growth 1960-1980[b]								
Total	1.0		3.4		2.2		2.6	
Agricultural	0.2		0.8		1.2		1.7	
Industrial	1.6		5.3		2.3		1.5	
Services	−0.3		2.5		0.4		2.1	

Source: PREDESAL, based on data from World Bank (1982a).
[a]Current dollars.
[b]Productivity of labour force.

in 1980). The increase in underemployment in Ecuador is therefore explained by the nature of its productive structure.

In *Bolivia* the agricultural problem is at the root of the rise in underemployment (from 68.7% in 1950 to 74.1% in 1980). The product went up at an annual cumulative rate of 5%, with high labour absorption in the urban localities, and labour absorption in the formal urban sector was quite reasonable, growing between 1950 and 1980 at an annual cumulative 3.8%. As the growth of the urban workforce was 3.3%, the urban informal sector also must have raised its employment levels at an annual cumulative rate of 3%. The underemployment situation showed a definite improvement in the urban areas.

The problem arose in the rural areas. The agricultural product went up by 3%, but while employment in the traditional rural sector rose by 1.3%, in the modern agricultural sector growth was negative. In 30 years the modern sector, despite its growth, expelled labour at a cumulative rate of -2.8% per annum. The traditional rural sector represented 74% of agricultural workers in 1950 and 91% in 1980.

In *El Salvador* the figures of 1980 were affected by the political events which caused a fall in economic activity. Underemployment stood at 48.7% in 1950; by 1970 it had fallen to 44.6%, but it rose again to 49% in 1980. The product went up at an annual cumulative rate of 5%, headed by the industrial sector with 6.7%. Urban labour absorption was high, especially that of the formal urban sector (a cumulative 4.2% per annum). As

the urban labour force increased by 4.1%, the growth of the informal sector came to an annual cumulative 3.9%.

The evolution of agriculture once again accounts for the maintenance, worsening or improvement of levels of underemployment. Global underemployment went down between 1950 and 1970. The modern agricultural sector, which represented 48.1% in 1950, raised its share of those employed in agriculture to 49.9% in 1970. This rise was influenced by the techniques employed in agriculture. In 1970 the use of fertilizers per hectare was over seven times higher than the average for Latin America, but the use of tractors per hectare was lower.

Underemployment increased in the period 1970-1980 because of the decline in economic activity at the end of the period. In 1980 the modern agricultural sector once again sustained a fall in its employment level, and its share in the total of agricultural workers dropped to 42.6%.

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Urbanization and the labour market

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

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

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

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I

Models of urbanization and employment

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

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

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

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

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

2. *A lure: the siren city*

According to this argument, first developed by Harris and Todaro (1970), the migration resulted from the attraction of artificially high urban wages (hence the siren city). These wages are high, the argument goes, owing to the combined effect of policies of exaggerated legal readjustment and minimum wage rates, trade-union pressures and inflated salary scales for the public sector. The apparent difference in remuneration generates excessive migration. Although not everyone finds work, the migration continues until the point when the desired income levels in rural and urban areas become equal. To put it in more concrete terms since there is the alternative of employment in easily available activities with flexible wages (the unprotected or informal sector), the migration continues until the point when the desired income in rural and urban areas becomes equal (this is equivalent to the probability of obtaining a high wege in the formal sector plus the greater probability of getting a lower informal wage or of being unemployed) (Piñera and Selowsky, 1976 and 1978, and Fields, 1975). Accordingly, it is not wages that balance the labour market and regulate the migratory flows but rather urban unemployment and increases in employment in low-productivity tertiary or informal activities which serve to absorb or rather to disguise unemployment. Consequently, this migration resulting from artificially high wages reduces agriculture and livestock production without increasing urban production (Harris and Todaro, on the increase in unemployment) or increasing urban production by less than the reduction in agriculture and livestock (Fields, on the increase in informal employment).

3. *Genuine attraction: industrialization requires tertiary employment*

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

II

Facts and interpretations

1. *Overview*

In the evolution of employment in Latin America from 1950 to 1980 three facts stand out:[1]

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

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

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

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

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

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

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

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

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

[4]For lack of data, I refer to 1925-1955 and not to 1920-1950.

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

	1925-1955	1950-1980
Totals		
Population	2.2%	2.7%
Urban population	3.5	4.1
Total EAP	2.0	2.5
"Urban" EAP[a]	2.9	3.8
"Rural" EAP[b]	1.4	1.0

Distribution of EAP by sector	*1925*	*1955*	*1950*	*1980*
Primary	62.3%	51.1%	56.2%	35.9%
Manufacturing	13.7	14.3	14.1	18.3
Other sectors	24.0	34.6	29.7	45.8

Annual growth of product, EAP and productivity

	1925-1955			*1950-1980*		
	GDP	EAP	Productivity	GDP	EAP	Productivity
Total economy	3.7%	2.0%	1.6%	5.5%	2.5%	3.0%
Agriculture	2.7	1.4	1.3	3.5	1.0	2.5
Primary	2.6	1.4	1.2	3.6	1.0	2.6
Secondary[c]	4.9	2.2	2.7	6.5	3.7	2.7
Tertiary[d]	3.7	3.3	0.4	5.7	3.9	1.8
"Urban"[a]	4.0	3.0	1.0	6.0	3.8	2.1

Source: ECLA, 1965 and 1978; PREALC, 1982.
Statistics Division of ECLAC, unpublished estimates of the 1980 product. The evolution of EAP and population in the period 1950-1980 were taken from following tables.
[a]Urban EAP means non-agricultural and non-mining EAP.
[b]Rural EAP means agricultural and mining EAP.
[c]For 1925-1955 taken as the evolution of manufacturing GDP and EAP.
[d]For 1925-1955 taken as the evolution of non-primary and non-manufacturing GDP and EAP.

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

If this development had not taken place, the situation in the postwar period would have been very different. Without the greater demand for labour that resulted from increased production, it would not have been easy to absorb the greater increases in the supply of labour without a diminution of its productivity.[5] Instead, it proved possible to increase both the generation of employment and labour productivity, or at least this is the theory that emerges from a pre-

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

liminary study of the global statistics at the regional level.

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

2. *The detailed analysis*

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

a) *Total of jobs generated*

Broadly speaking, the population reached its maximum growth during the 1950s and 1960s (2.8% annually as against 2.2% for 1925-1955) and then began to decline in the 1970s. As it takes 12 to 15 years for these new members of the population to reach working age, the period 1960-1980 was the most difficult with regard to the need to absorb labour (table 2).

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

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

b) *Growth of urban employment*

i) *Urbanization without industrialization?*

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

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

Source: ECLA, 1981; and CELADE, 1983.
[a]Urban EAP means non-agricultural and non-mining EAP.

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

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

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

Finally, to check the fact that urbanization might be a function of the greater increase in the urban product rather than in the primary product, the difference between the growth rates of the urban EAP and the population of working age was compared to the primary product (figure IC) this relationship was also positive, significant and very marked.[8]

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

On the basis of PREALC estimates on the evolution of formal employment[9] between 1950 and 1980 it can be seen that:

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

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

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

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

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

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

Figure 1
RELATIONSHIPS BETWEEN PRODUCT GROWTH AND EMPLOYMENT GROWTH

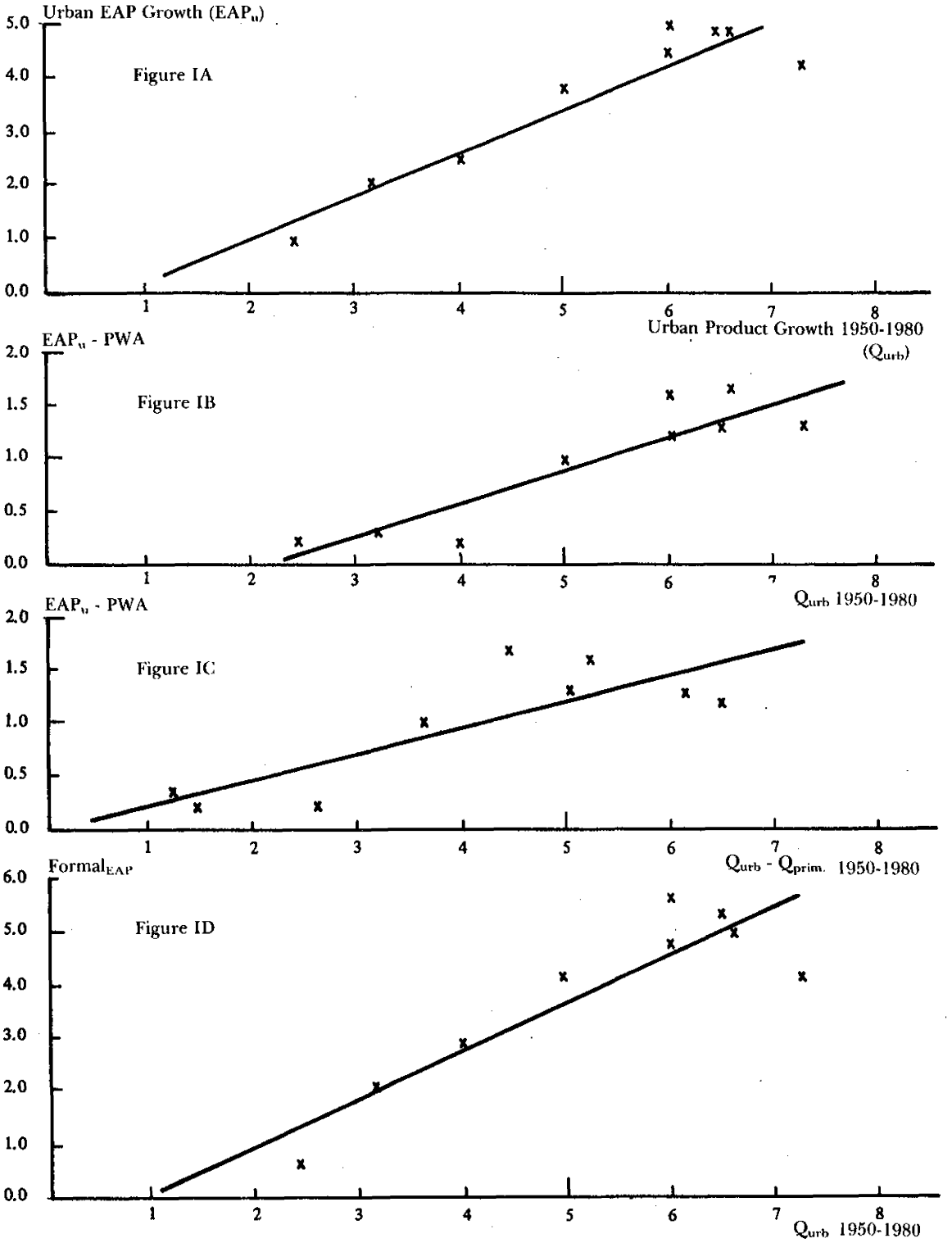


Table 3
RELATIVE GROWTH OF FORMAL EMPLOYMENT
(Annual grwoth rates)

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

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

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

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

Since 70% of urban employment is usually in the formal sector, at least 70% of the new employment generated in the sector should have been in response to the demand for productive mapower (formal activity) and not to supply. This is the reason why, when the growth of formal employment is compared with the growth of the urban product (figure ID), the result is a strong positive relationship, almost identical to the one produced when the growth of all urban employment is compared with the urban product (figure IA).[11]

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

[10]Brazil, Costa Rica, Chile, Panama, Peru and Venezuela (Kaztman, 1983).

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

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

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

Source: PREALC, 1982.
[a]Urban EAP means non-agricultural and non-mining EAP.

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

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

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

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

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

Table 5

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

	Secondary EAP / Total EAP				Tertiary EAP / Total EAP			
	1950	1960	1970	1980	1950	1960	1970	1980
Latin America	18.1	20.2	22.6	25.9	25.7	30.5	34.2	38.2
Argentina	29.9	34.5	33.2	30.4	42.1	43.1	48.4	54.1
Brazil	16.9	18.4	21.5	28.0	22.3	28.8	32.0	34.1
Colombia	15.6	16.9	20.2	22.8	23.7	28.2	36.2	42.1
Costa Rica	15.9	17.9	21.3	23.9	26.1	30.1	35.7	41.4
Chile	25.3	25.5	27.5	25.6	37.6	39.5	42.3	48.6
Mexico	14.1	18.5	23.0	25.4	20.4	27.2	29.1	36.1
Peru	16.1	15.9	18.9	19.2	19.9	25.7	31.8	39.6
Uruguay	...	31.1	30.7	31.2	...	48.1	50.3	51.1
Venezuela	17.6	20.1	22.9	30.0	33.5	43.0	48.4	49.0
	Secondary EAP / Urban EAP[a]				Tertiary EAP / Urban EAP[a]			
	1950	1960	1970	1980	1950	1960	1970	1980
Latin America	41.3	39.9	39.8	40.4	58.7	60.2	60.2	59.6
Argentina	41.5	44.5	40.7	36.0	58.5	55.5	59.3	64.0
Brazil	43.1	39.0	40.2	45.1	56.9	61.0	59.8	54.9
Colombia	39.7	37.5	35.8	35.1	60.3	62.5	64.2	64.9
Costa Rica	37.9	37.3	37.4	36.6	62.1	62.7	62.6	63.4
Chile	40.2	39.2	39.4	34.5	59.8	60.8	60.6	65.5
Mexico	40.9	40.5	44.1	41.3	59.1	59.5	55.9	58.7
Peru	44.7	38.2	36.6	32.6	55.3	61.8	63.0	67.3
Uruguay	...	39.3	37.9	37.9	...	60.7	62.1	62.1
Venezuela	34.5	31.9	32.1	38.0	65.6	68.1	67.9	62.0

Source: PREALC, 1982.

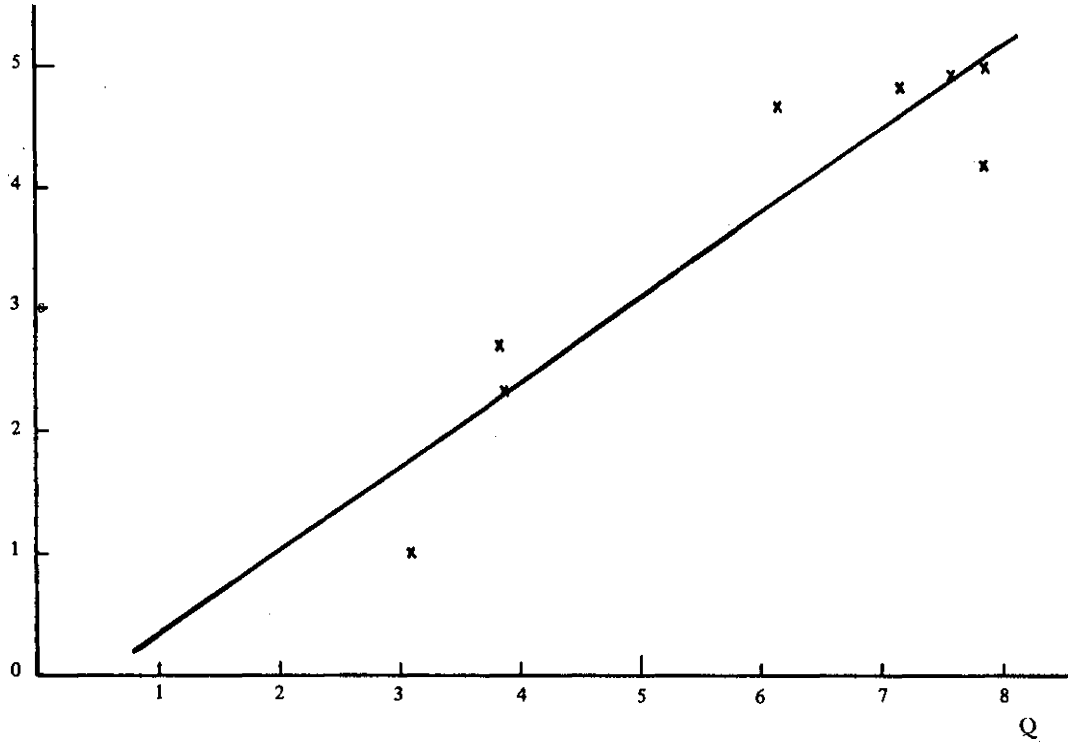
[a]Urban EAP means non-agricultural and non-mining EAP.

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

In view of the lack of information on the evolution of employment by subsector of the tertiary sector, an attempt was made to check Galenson's theory on the basis of total data for the whole tertiary sector; i.e. that the bulk of tertiary employment was generated by a demand derived from secondary production. Modern industrial technology would absorb less labour per work unit than in the past —which is why secondary employment represented a lesser share of urban employment than in the past in Europe and North America— but it would generate much employment in tertiary activities, since a large part of trade and transport, financial services and business services, as well as education and health services, either represented a demand derived from secondary production or depended on this production for their financing (the case of many government social services). The theory states that tertiary employment will grow with the level of industrialization (secondary production), although secondary employment may not increase very greatly. Conversely, if the expansion of tertiary employment was a response fundamentally to a need to absorb an oversupply of labour and not to a real demand, there would be a very loose relationship between the growth rate

of tertiary employment and the secondary product (figure II). It can be seen that there was a positive, strong and significant relationship between those two variables in the period 1950-1980. [13] The theory of over-tertiarization may thus be rejected. But one can endorse the argument that the bulk of the growth in tertiary employment was a response to a growing demand for productive manpower, and was not excessive, for that would have been an indication of increasing underemployment.

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



III

Evolution of productivity

Although the changes in the sectoral composition of the labour force in Latin America were very important, of greater relevance were the changes within each sector reflected in marked improvements in sectoral productivity (product per man). Between 1950 and 1980 the product per worker in Latin America increased 2.4 times, from US$ 1 150 to US$ 2 750 (table 6). Of this increase, 25% was due to higher productivity resulting from the reduction of 20 percentage points in the labour force engaged in low-productivity primary activities and their shift to jobs in the secondary and tertiary sectors with production levels 3 to 5 times higher. In other words, if the 1950 levels of sectoral productivity had been maintained, the productivity of the Latin American economy in 1980 would have risen only 25%. The remaining 90% (in multiplication form, 1.9 x 1.25 = 2.4) was due to productivity increases within each sector.

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

[13] The simple regression is: the growth rate of tertiary employment = −0.4 + (0.68) (the growth rate of the secondary product). R^2 = 93% , t = 6.

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

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

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

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

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

The fastest-growing occupational groups in this period were qualified non-manual employees (professionals, technical and clerical), which increased at an annual rate of the order of 6% between 1950 and 1970 (the only period for which data are available) —a much higher rate than that of EAP (2.3% per year) or of the population of working age (2.7% per year) or of the urban EAP (3.6% per year) for the same period (table 8). Since these employees represent the highest-qualified manpower and since the bulk of them are found in tertiary activities, there must have been a strong improvement in the level of qualification of the tertiary workforce. Moreover, as the annual EAP growth rate for employees of this type (6%) was lower than the estimated growth of the workforce with higher-than-primary education (8%) in this same period 1950-1970 (table 8), the implication is that: i) the smaller but rapid growth of highly qualified non-manual employees centred on the tertiary sector was a response to increases in the demand for their services rather than to a greater supply, and ii) that other workers —not only non-manual but especially urban manual workers— [14] must also

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

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

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

Source: PREALC, 1982; for the sectoral product, data from the Statistics Division of ECLAC based on official figures.
[a]P = primary sector
S = secondary sector
T = tertiary sector
[b]1960-1980.

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

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

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

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

Source: ECLA, 1981; Ramos, 1970 and PREALC, 1982.
[a]Urban EAP means non-agricultural and non-mining EAP.
[b]Professional, technical and clerical.
[c]1960-1970.

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

Furthermore, although the evolution of real urban wages and salaries is somewhat irregular –with varying cycles (connected with the stabilization policies that followed the two price jumps of energy products) superimposed on a bullish historical trend (PREALC, 1982, table III-3)— the available data show no systematic tendency for informal wages (or their indirect indicator, construction wages) to fall or to grow less than those of the formal sector (the industrial sectors covered by wage surveys).[16] If there had been a systematic rise, the pressure of a greater supply of urban labour would have brought about declines in informal wages and construction wages. The fact that these maintained their relationship with wages in the industrial sector suggests that this greater pressure of urban labour supply did not exist or (as I maintain) that it was, regrettably, offset by an even greater demand for productive labour, a genuine demand derived from the higher growth of the urban product (secondary and tertiary). In other words, the pressure of a greater demand for labour won the day.

IV

Problems and forms of adjustment

The fact that the demand for labour generally increased more than the supply in the period 1950-1980 does not mean that there were no employment problems. Within this general, strong and positive trend there were problems in some periods and countries, likewise, there were groups of workers whose position deteriorated in absolute terms, as happened with the absolute decline in tertiary productivity in the decade 1970-1980 in Argentina, Chile and Peru (table 7). And tertiary employment grew more quickly than the secondary product in the 1970s: an annual 2.7% as against 2.6% (Argentina), an annual 4.0% as against 1.1% (Chile) and an annual 4.9% against 3.4% (Peru). This explains why the relationship between the growth of tertiary employment and the secondary product was so weak in 1970-1980[17] and was so markedly different from the good results obtained in 1950-1980 and the decades of the 1950s and 1960s taken separately.[18]

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

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

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

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

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

Another form of adjustment was seen in Peru between 1975 and 1978. Instead of increasing the unemployment rate —which in fact did not rise any great amount— the economic recession in those three years, when there was a sustained and strong supply of labour, resulted in greater underemployment in the form of low incomes; in other words, there was an increase in the number of persons in the labour force who worked 35 hours or more per week but earned less than the minimum wage. This affected the secondary labour force in particular —young people, women and old people— who were employed in low-income and low-productivity jobs which they would not normally have accepted but in that time of crisis did accept, at least temporarily, in order to supplement the reduced family income. This is the reason why those three years saw large increases in the participation rates, especially of women, and a significant increase in the members of unpaid family members. Finally, it seems that more young people joined the labour force as trainees —since it was not possible to find any other adequately paid work— for this legal loophole was used to avoid paying the minimum wage (Henríquez and Iguiñiz (comp.), 1983; R. Grampone, 1983; Verdera, 1983; and Wicht, 1983).

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

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

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

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

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

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

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

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

V

Conclusion

The transformations in the sectoral composition of the labour force, the sustained growth of secondary and formal employment, and above all the strong rise of productivity (and wages) within each sector endorse the conclusion that the great increase in the urban labour force in Latin America in the postwar period was a reflection of a vigorous demand for productive manpower (a positive sign) rather than of a rise in supply (a sign of weakness). This explains how the dynamic process of industrialization could take place without excesses of urbanization, informalization or tertiarization.

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

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

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

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

The fact that this growing demand for labour in the period 1950-1980 went unnoticed and that, on the contrary, there were fears of the employment problem worsening during this time, was due in part to the close attention that observers paid to the accelerated growth of population of working age and, consequently, to the need to generate jobs. Another reason was that between 1925 and 1955 manufacturing employment had risen slowly (2.2%) despite a sustained increase in the sectoral product (4.9%); in other words, the secondary sector absorbed workers at a rate equivalent to only 45% of the growth in its product. Happily, this absorption capacity increased in the following 30 years, so that in the decade of the 1970s secondary employment expanded at a rate equal to 65% of the increase in the sectoral product. It is probable that this increasing generation of jobs by the secondary sector was due to the fact that in the dawn of industrialization in Latin America enormous increases in productivity accompanied the introduction of modern technology, for the process of industrialization had begun late.[20] As it continued, however, the productivity differences grew less, since the existing industrial community became increasingly less traditional. To put it another way, despite the speed with which modern (and qualified) secondary employment expanded, total secondary employment did not rise to any great extent, even though the component of traditional secondary employment (or secondary underemployment) to be absorbed was not relatively low. It was not therefore until the 1960s and 1970s that the growth of secondary employment speeded up and was noticed.

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

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

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

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

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

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

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Sectoral transformations in employment in Latin America

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The purpose of this article is to analyse the available statistical data in order to contribute to the interpretation of the process of absorption of labour in Latin America over the last 30 years.

In view of the size of the topic, the author has limited his treatment to the search for answers to a few specific questions about the evolution of employment in each sector. With regard to agriculture, some evidence is offered concerning the changes in the relationships of production which accompanied the sharp decline in agriculture's relative share of the total labour force. In considering the transformations in industry, the author examines the view that maintains that this sector is incapable of absorbing labour at a rate that can cope with the magnitude of the growth of the non-agricultural active population and, in his analysis of the tertiary sector, he helps to throw light on the nature of the sector's remarkable expansion from 1950.

The fact that the questions are directed at each sector does not mean that the author has lost sight of the interaction between them. On the contrary, one of the ideas that guided his interpretation of the data is the existence of a process of modernization which is gradually penetrating the various sectors in response to pressures which usually, but not necessarily, come from the industrial sector and whose degree and sequence of penetration depend on the modalities of development adopted in each country.

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Introduction

The demographic expansion and the accelerated process of urbanization in the Latin American countries in recent decades were accompanied by profound changes in the sectoral distribution of the labour force. There has been a continuous decline in the share of agricultural manpower in the total labour force and, at the same time, an increase in the relative importance of industry and of services as activities that absorb labour.

Although there is considerable agreement about these trends in the literature, opinions differ more when it comes to the meaning of the trends and the effect of each of them with respect to changes in the internal composition of the sectors. Thus, the strong and continuous decline of the relative share of agriculture in the labour force is recognized, but there is disagreement as to whether the decline has been mainly among unwaged agricultural workers or among small farmers.

Where industry is concerned,there has been agreement on the importance of the expansion of its workforce in recent decades, but this agreement has been associated with divergent thinking as to whether the growth rate is sufficient to meet the demands for employment generated by the massive shift of agricultural labour to non-agricultural activities. There have also been disagreements about the dynamism and the pulling power of the process of industrialization as a means of raising the overall productivity of the economy by instituting, strengthening and expanding modern activities, both in the sector itself and in the other sectors of production.

With regard to the tertiary sector, it is already a commonplace to point out that the greater part of the growth of the urban labour force was in services. However, opinions diverge considerably as to whether this growth should be characterized as perverse or non-perverse.

In considering these divergent views from the historical standpoint it is not easy to decide how many of the disagreements are due to substantive differences in the analytical frameworks within which the general trends in the sectoral transformations in employment are interpreted, how many to conceptual ambiguities and how many to data problems. Only in recent years have the terms of the debate begun to be defined with precision, owing, on the one hand, to the development of classifications in which activities are

grouped according to theoretically meaningful criteria —for example, the distinction between productive, distributive, social and personal services (Browning and Singelmann, 1975) and, on the other, to the compilation of data bases on sectoral employment which incorporate adjustments and corrections to improve their synchronic and diachronic comparability[1] and which, facilitate the formulation and testing of various hypotheses concerning the characteristics of the evolution of employment in each sector, as well as the analysis of the sectoral transformations in each country within the framework of what has happened in all the countries of the region.

It should be noted that the information available for 1980 for some countries probably does not reflect the most important implications of the recent economic crisis for the characteristics of the distribution of employment by occupational branch and category. Although it may be assumed, in principle, that this impact will exacerbate the problems of labour absorption, it is difficult to know exactly what the time-lag will be between the crisis situation and its effects on the structure of the labour force, given that the initial impact tends to be mainly on the unemployment and underemployment rates.

I

The agricultural sector

The dimensions of the transfer of labour from agriculture to the other sectors can be seen from the fact that, while total EAP grew by 2.1% annually between 1950 and 1960, and by 2.3% between 1960 and 1970,agricultural EAP grew by 0.9% in the first period and by 0.7% in the second. These figures meant that, whereas in 1950 54% of the region's total labour force was agricultural, in 1970 the figure was barely 41.3%[2] (table 1).

To judge by the little information available, the declining trend in agricultural EAP seems to have grown steeper in the decade 1970-1980. In fact, in all of the eight countries for which information was obtained [3] employment in agriculture declined in this period from 37.2% to 26.6% of the total labour force.

As a framework for evaluating the significance of these changes it is useful to consider the evolution of agricultural employment in the developed capitalist countries. In those countries the decline in agricultural EAP is a process that has been going on for a long time since its beginnings in the second half of the last century, but it accelerated from 1950 —just as it did throughout Latin America— with the result that in the 20 years from 1950 to 1970 the fall was greater than in the 60 years from 1890 to 1950 (Bairoch and Limbor, 1968). The downward movement continued between 1970 and 1980, so that at the end of that period only two countries, Spain and Italy, had percentages above 10%, even though they too experienced large reductions in their agricultural EAP during the decade. These small labour forces were sufficient to produce the food required by high-consumption industrial societies and in some cases —most notable the United States, Canada and Australia— to generate large exportable surpluses.

In 1970 some Latin American countries did have agricultural employment figures similar to those of the developed countries, but the majority remained predominantly agricultural or had agricultural EAP figures of over 40%. The subsequent reductions that can be seen in the data available for 1980 show how the gap between the

[1] The methodology followed to improve the historical comparability of data on sectoral employment appeared in ECLA (1979b). It was subsequently revised to render the information uniform among countries and make synchronic comparison possible.

[2] In assessing the significance of this decline, it should be borne in mind that the natural growth rates of the rural population are usually greater than the urban rates (United Nations, 1974).

[3] Argentina, Brazil, Costa Rica, Cuba, Chile, Panama, Peru and Venezuela. In 1970 the agricultural labour force in these countries accounted for more than half of the total for the whole region.

Table 1
LATIN AMERICA: CHARACTERISTICS OF THE EVOLUTION OF AGRICULTURAL EMPLOYMENT
1950-1980

Countries	(Agricultural EAP / Total EAP) (%)				(Waged agricultural EAP / Agricultural EAP) (%)			
	1950	1960	1970	1980	1950	1960	1970	1980
Argentina	26.74	19.92	16.23	12.90	59.3	50.9	54.0	52.7
Bolivia[a]	72.49	63.76[b]	46.94	...	24.4	...	12.9	...
Brazil	60.06	54.46	45.29	30.55	34.2	26.4	25.6	38.4
Colombia	55.86	48.67	43.46	...	43.1	42.7	48.4	...
Costa Rica	56.41	49.79	38.34	27.22[b]	59.8	54.4	60.1	63.4[b]
Cuba	41.71	36.65[b]	30.22	19.00	62.6	...	65.3	...
Chile	31.53	30.45	23.11	15.83[b]	69.6	69.7	63.3	51.0[b]
Ecuador	65.46[a]	56.18	48.37	...	42.4	40.3	37.0	...
El Salvador	64.59	60.43	59.10	...	50.0	63.9	51.2	...
Guatemala	68.43	65.74	58.04	...	...	54.7	36.4	...
Haiti	84.53	78.89[b]	71.46	...	6.0	...	11.5	...
Honduras	80.60	68.39	61.42	...	34.8	27.6	31.1	...
Mexico	58.30	49.43	40.85	...	30.3	43.7	48.2	...
Nicaragua	67.70	57.46	47.67	...	...	48.3	48.7	...
Panama[a]	59.21	56.77	43.36	30.88	10.2	17.5	20.6	29.6
Paraguay[a]	55.36	57.11	51.09	...	...	...	...	...
Peru	58.16[b]	51.35	42.86	37.44[a]	...	31.6	24.4	20.2
Dominican Rep.	66.88	66.18	54.20	...	...	24.9	36.7	...
Uruguay	21.29[b]	19.40	17.51	...	...	54.3	50.0	...
Venezuela	43.95[a]	32.20	24.17	14.58[b]	35.2	35.0	28.3	35.1[b]
	54.03	*48.18*	*41.29*					

Source: Prepared on the basis of national population censuses.
[a]Refers to employed population.
[b]Estimated.

two groups of countries is closing, but the same effect has probably not been produced in productivity per man employed in agriculture for in the European countries in 1970 it was four to six times higher than in Latin America (ILO, 1980).

Although the rationalization of Latin American agriculture entailed a remarkable reduction in the relative size of the agricultural workforce in all the countries, the transformations set in motion by the massive shift of labour to other sectors affected different categories of agricultural workers differently, depending on the characteristics of the national systems of production. In an historical analysis of the growth of the occupational categories most affected by this process three groups of countries stand out (table 1). In the first, agricultural development seems to have entailed a proletarianization of the labour force. Haiti, Mexico, Panama and the Dominican Republic belong in this group, which can also include Costa Rica in the period from 1960 to 1980 and Brazil, which in the decade 1970-1980 shows a remarkable increase in the relative proportion of waged agricultural workers in the sector's workforce.

The second group is made up of countries —most of them in the Andean area— in which there is a trend towards small farming, by which is meant an increase in the number of family farming units within the agricultural sector. This is the case for Bolivia, Chile, Ecuador, Guatemala and Peru, between 1960 and 1970.

The other countries do not show a clear pattern of trends towards proletarianization or small farming among agricultural workers. The majority of them —Argentina, Colombia, Cuba, Nicaragua and Venezuela— show changes of little significance in the structure of the rela-

tionships of production in the period under consideration. In Uruguay there was a slight drop in the number of waged workers. Honduras and El Salvador underwent major changes between 1950 and 1960 but in 1970 their numbers of waged agricultural workers were similar to those of 1950.

All this leads to the conclusion that, at least since 1950, the changes in the social structures of the countries of the region resulting from the processes of rationalization of agriculture have not followed a uniform pattern.[4]

This finding calls into question any attempt to make generalizations about Latin America on the basis of a supposed similarity with regard to the possible effects of the process of agricultural modernization on the composition of the labour force. It also points to the need to approach the analysis of these problems by grouping countries separately according to a series of relevant variables in order to explore the evolution of the relationships of production in agriculture. I refer, for example, to the principal types of production, the technologies used therein and the extent, depth and other central features of the agrarian-reform programmes adopted in the countries.[5]

In considering the forms which the rationalization of agriculture has been taking, attention must also be given to certain relatively recent changes in the relationships of production which up to now have been poorly reflected in the data collected in population and housing censuses and national surveys of households. I am referring to the replacement of permanent by temporary workers, and, among these temporary workers, to those who are taken on directly by the producer and those who agree to terms on which they will provide their labour with a contractor who in turn negotiates with the producer. Although it is clear that in some regions this phenomenon has been known for decades (as in Argentine Patagonia and the south of Chile), with the process of modernization this form of contracting has spread to many regions, especially in Brazil, where it is estimated that approximately 40% of the agricultural workforce operates under this system (Saint, 1981). This phenomenon has accompanied the partial introduction of labour-saving techniques in certain phases of the production cycle of each crop (Roitman, 1982) and it has also been associated with the labour surplus (Miró and Rodríguez, 1982).

The low quality and infrequent collection of the data and the inadequate analytical coverage that characterize the available sources of information constitute one of the main obstacles to the advancement of research in this field. In particular, it has been repeatedly stated that the problems of the measurement of agricultural employment lie both in the classification of women and children in rural areas according to their occupational status and in the correct identification of the occupational categories of workers who increasingly combine during the year waged work with own-account activities typical of small-farmer production units.

One solution to this latter problem would seem to lie in the detailed exploration of the characteristics of the occupational cycles of the agricultural labour force in each country and to use this as a basis for the construction of categories of workers that reflect the sequences of changes —with regard to occupational status branch, occupation, occupational category, area of residence and place of work— which are typical for each country or region (ECLA, PREALC, STPS, 1982). One example of this is the inclusion in the latest population and housing census in Brazil of a category designed to identify migratory workers (*volantes*) and, among them, those directly involved in exploitation and those who operate through intermediaries.

Something else which is necessary, with a view to the advancement of research into the characteristics of agricultural employment, is a revision and amendment of the occupational classification. The changes should be designed to

[4] The diversity of trends in the transformation of the relationships of production in Latin America agriculture has already been noticed in other papers (for example, Klein, 1981).

[5] The relationships of production were changed by agrarian reforms in Mexico (1952-1954), Bolivia (1952-1970), Venezuela (1959-1970), Colombia (1961-1972), Chile (1962-1973) and Peru (1963-1976). They were affected by a variety of arrangements between small producers and landowning enterprises which tended to maximize the latters' overall control of production (ECLA, 1979; Miró and Rodríguez, 1982).

facilitate the study of the developments that have taken place in the requirements of labour classification as a result of transformations in technology and the relationships of production in the agriculture and livestock sector (ECLA, PREALC, STPS, 1982; IPEA, 1977).

II

The industrial sector

Many of the studies of the characteristics of the process of industrialization in Latin America carried out in the 1970s stressed that the success achieved by the middle sector in terms of the growth of its product —which between 1940 and 1970 increased from one-sixth to one-quarter of the total regional product— had outpaced its capacity to generate employment. This result contrasted with the situation in the developed countries, where the share of the industrial product in the total product was equal to or slightly higher than the share of industrial EAP in total EAP.

It was also pointed out that, in the light of the remarkable increase in the urban labour force, this presumed slowness of the fundamental manpower constituted one of the fundamental imbalances afflicting the development of Latin America.[6]

More recent analyses paint a more optimistic picture of the part played by industry in employment (García, 1982).[7] These analyses assert that between 1950 and 1980 industrial employment —and particularly modern— grew in many countries of Latin America at rates very close to —and at times higher than— the employment rates in the whole of the non-agricultural sector. Viewed against the backdrop of the rapid process of urbanization in the region during this period, this fact gives the impression that industrialization had a much greater impact on the labour market than had been recognized up to now. Reference is also made to a series of factors which helped to determine the function of Latin American industry as a generator of job opportunities. These factors include the important multiplier effect of industrial employment, and it is stressed that the stimulus provided by many industrial branches, under the protection of the models of economic policy prevailing during the process of import substitution on which a large part of the region's industrial development was based, represented a major indirect contribution by industry to the growth of employment in other activities.

These analyses apply a different focus from the one used in traditional studies of the sectoral changes in employment based on the pioneering work of Fisher (1935) and Clark (1940). Such studies seek to explain the changes in the absolute and relative volume of employment in each sector either in terms of factors operating within the limits of each sector, viewing them as separate entities (for example, technological progress), or of factors that operate outside the limits of the

[6] It must be made clear what is meant by an adequate growth rate of the industrial sector. The term "dynamic insufficiency" entered ECLA's thinking, especially following the work done by Prebisch in the 1960s, to indicate, in a general way, a certain incapacity on the part of economic growth to absorb productively the expansion of the labour force and, in particular, the inability of the process of industrialization to generate employment in industry and stimulate employment in other sectors so as to enable the large numbers of workers who moved from agriculture to the big urban centres, as well as the existing labour force already engaged in low-productivity urban activities, gradually to be incorporated into high-productivity activities. In this sense, the notion of "dynamic insufficiency" seems to point to a theoretical parameter that implicitly defines a desirable goal, in the long term, for the industrialization process and allows an analysis to be made against this background, of the present status of the process in a given country and at a given time. In other words, "dynamic insufficiency" would constitute a definition of development in terms of the capacity for productive absorption of the labour force.

[7] Some writers have stressed the improvement in the quality of industrial employmnent rather than its numerical increase, in order to paint an optimistic picture of the role played by industry in employment; from this standpoint, industry would indicate the direction to be taken by the other branches of production (Ramos, 1968).

sectors and influence all of them (for example, changes in patterns of consumption, in the structures of labour markets or in State policies). In any event, no attention is given to changes in the interdependent relationships among the phases of activities that contribute to the production of specific goods (Momigliano and Siniscalco, 1982). The later analyses, on the other hand, take particular account of these changes and offer an integrated view of the structure of sectoral employment which directs the researcher's attention towards the repercussions that the generation of employment in one sector may have on the others and which provides a more complete picture of the dynamics of employment resulting from the various kinds and the intensity of growth in a sector. In a recent application of this approach, García and Marfán (1982) conclude that for each direct job created in the manufacturing industry pressures are generated that create one or more additional jobs in other activities. As these writers put it, the results of the studies "endorse the need to take into account the degree of integration and the role of an activity within the productive structure in order to explain its capacity to affect the generation of productive employment" (*op. cit.*, p. 12).

The figures in table 3 enable us to test the generating is based on three kinds of argument: the first stresses that industry lags behind with respect to growth in non-agricultural EAP. The second underlines the slowness with which the modern sector of industry absorbs the sector's "informal" activities. The third points to the small increase in industrial employment in comparison to the increase in the industrial product. These arguments are usually brandished about in a comparison of the results of the performance of industrial employment in Latin America with the performance of the countries which industrialized early.

The figures in table 3 enable us to test the first kind of argument. The table compares the growth of industrial EAP with the growth of non-agricultural EAP. It can be seen that the figures for the period 1950-1960 justify a pessimistic view of the capacity of industry to generate jobs, for in only three out of 15 countries does the growth of industrial EAP exceed that of non-agricultural EAP. In the following decade the picture is different: relative absorption by industry improves in 10 of the 15 countries considered with respect to the previous period and the growth rate is faster than that of non-agricultural EAP in eight out of 17 countries.

For the period 1970-1980, three out of the six countries for which information is available show values higher than unity, which indicates an increase in industrial employment at a faster rate than in non-agricultural EAP. Furthermore, the trend towards relative growth of industrial EAP persisted in Brazil and Panama. On the other hand, the nature of the trend changed in Costa Rica and Venezuela and in Chile, a country in which the growth of industrial employment was much lower than the growth of non-agricultural employment. Finally, the comparison of the data for the period 1970-1980 for Peru with those for the previous decade reveals a trend towards faster relative growth of industrial EAP, but still at levels much lower than the growth of the whole of the non-agricultural sector.

As inadequate generation of industrial employment has traditionally been attributed to factors related to the intensive use that modern industrialization makes of capital, I have made a rough estimate of employment in this type of industry, excluding from the total industrial EAP own-account workers and unpaid family members.[8] An examination of the values of the index that compares the growth of "modern" industrial EAP with that of non-agricultural EAP leads to the conclusion that in all the countries considered modern industry has generated more employment than industry as a whole and that in countries such as Argentina, Mexico, Venezuela and Chile the growth of modern industrial employment has been clearly higher than the growth of non-agricultural employment (table 2).

As in the two previous decades, in the period 1979-1980 the relative growth of the workforce

[8] To facilitate the comparison between countries and between different periods in one country, the figures for active population in industry have been made homogeneous and consistent with Revision 1 of the International Standard Classification of Occupations, with workers in repair shops being considered as belonging to manufacturing industry. The exclusion of own-account workers and unpaid family members from the industrial labour force tends to reduce the share of workers in repair shops, as well as those employed in small artisan industries, in the total industrial EAP.

Table 2

LATIN AMERICA: PERCENTAGE OF EAP IN INDUSTRY, RELATIONSHIP OF THE GROWTH OF EAP IN INDUSTRY AS A WHOLE AND IN MODERN INDUSTRY TO THE GROWTH OF NON-AGRICULTURAL EAP, BY COUNTRY, 1950-1980

Country[a]	Percentage EAP in industry				Industrial EAP growth Non-agricultural EAP growth				EAP growth in modern industry Non-agricultural EAP growth	
	1950	1960	1970	1980	1950-1960	1960-1970	1950-1970	1970-1980	1950-1970	1970-1980
Haiti	4.9	6.3[b]	7.8	...	...	...	0.83	...	...	...
Honduras	11.5	7.9	10.5	...	−0.05	1.45	0.62	...	...	...
Guatemala	10.9	10.5	12.9	...	0.64	1.11	0.93	...	...	...
El Salvador	11.9	12.9	11.3	...	0.91	0.43	0.62	...	0.74	...
Dominican Rep.	8.5	8.6	13.4	...	0.55	1.21	1.04	...	...	...
Bolivia	8.2	9.8[b]	11.3	...	...	...	0.58	...	0.68	...
Paraguay	15.5	15.3	16.0	...	0.96	0.87	0.91	...	...	...
Ecuador	10.1	13.9	15.6	...	1.54	0.91	1.18	...	...	...
Nicaragua	11.4	11.5	14.6	...	1.00	0.88	0.93	...	...	...
Peru	14.9[b]	13.7	11.6	11.4[cd]	...	0.01	...	0.38[cd]	...	0.66[c]
Brazil	12.9	13.7	14.8	17.7	0.74	0.87	0.80	1.27	0.90	1.27
Mexico	12.2	13.7	18.5	...	0.93	1.22	1.08	...	1.21	...
Costa Rica	11.2	11.5	13.7	16.1	0.72	0.99	0.89	0.89	1.00	0.94
Panama	8.7	8.6	9.9	10.5[cd]	0.61	0.93	0.80	1.18[cd]	0.96	1.69[c]
Colombia	12.5	13.0	17.3	...	0.75	1.08	0.95	...	...	...
Venezuela	11.2	13.0	15.6	16.3[c]	0.99	1.17	1.08	1.13[c]	1.22	1.28[c]
Chile	19.4	19.1	21.8	16.8[c]	0.58	1.19	0.98	0.66[c]	1.26	0.83[c]
Uruguay	21.7[b]	23.4	23.0	...	...	0.76	...	...	...	...
Argentina	25.3	27.7	24.0	...	1.12	−0.04	0.55	...	5.15	...

Source: Prepared from national census figures.

[a]Placed in descending order according to agricultural EAP percentages in 1970.

[b]No census taken. Estimates by interpolation between 1940 and 1960.

[c]ISCO Rev. 2: excluding repair shops.

[d]Equivalent to employed population.

in modern industry was higher than that of total EAP in the six countries considered, and in three of them it was higher than the growth of non-agricultural EAP. Moreover, in Brazil, Panama and Venezuela the share of modern industry in non-agricultural employment grew at a faster rate than in the past. The opposite happened in Chile, while there was no great change in this respect in Costa Rica.

There are few studies that compare the history of the growth of industrial employment in Latin America with the experience of today's industrialized countries in the period when —like the Latin American countries analysed here— they were transferring the bulk of their agricultural labour force to non-agricultural activities. Norberto García (1982) compares the industrialization of the countries of the region with that of the United States between 1870 and 1910, when there was a massive shift of manpower in that country to non-agricultural areas of employment that had growth rates which mirrored those of the industrialized countries of Europe at that time. Except in the case of Argentina, García was able to conclude from this comparison that the changes in the proportion of manufacturing EAP in total EAP were very similar; that the growth rate of manufacturing employment in the United States between 1870 and 1910 was lower than the rate registered in Latin

America between 1950 and 1980; that in the same periods the decline in the share of manufacuring EAP in non-agricultural EAP was sharper in the United States than in Latin America; and that despite the higher growth of non-agricultural EAP, the share of the industrial workforce remained almost constant at about 23%, while in the United States it had fallen from 23.8 to 21.6%.

Tokman (1981) draws similar conclusions from his analysis of the changes in the share of industry in non-agricultural EAP between 1950 and 1980 in Latin America and his comparison of them with the changes in the United States, Sweden and Japan in similar periods in the past, with respect to the size of the shift of agricultural labour to other sectors.

However, Tokman finds that, unlike the United States, Latin America has a level of employment in the informal segment of industry (using own-account workers as a proxy) which is relatively high and close to the average for other sectors. But, even more importantly, his data reveal that whereas in the United States informal industrial workers are quickly absorbed by the more modern sector, in Latin America their numbers remain almost unchanged. This fact —the second argument referred to above— enables him to underline the magnitude of the effort that the industrial sector of Latin America must make if it is to resolve the employment problem.

The composition of the industrial workforce by occupational category in the developed countries in about 1980 supports Tokman in attributing little importance to unwaged workers in industry. In fact, the values range between 1% (Canada, United States) and 7% (Denmark). Countries which industrialized more recently or which still have fairly large segments of the labour force in agriculture show values ranging between 12% (Portugal, Spain, Italy) and 16% (Japan) (ILO, 1980 and 1982). These figures are not too far distant from the ones for Panama and Brazil in 1980 (11.5 and 14.3%, respectively).

But, contrary to Tokman's assertion, unwaged workers in industry appear to be absorbed (or displaced) fairly quickly in Latin America; this is significant if it is remembered that, owing to the type of technology used, it is now much more costly than in the past to incorporate new workers in the modern sector of industry (table 3).

Of the countries for which comparable estimates are available for the period 1950-1980, Chile shows a decline in the proportion of unwaged workers from 30 to 21%, Venezuela (1960-1980) from 31 to 20%, Panama from 40 to 11%, Brazil from 14.8 to 14.3% and Peru (1960-1980) from 46 to 29%.[9] In general it can be seen that, without reaching the very low levels typical of the countries which industrialized early, the dominant trend in Latin America from 1950 has been towards a reduction in the number of unwaged (informal) workers in industry —slow in some cases and fast in at least eight of the 18 countries considered.[10] This indicates a reduction in the industry's internal homogeneity with respect to the composition of its labour force by employment category.

With regard to the third argument —industrial EAP lags behind the sector's product— table 4 and figure I show the trends between 1950 and 1970 in the index that relates these two factors and they present a comparison of the situation of the Latin American countries in 1970 with that of some developed countries, taken as a framework of reference. The index relating the percentage of industrial product in the total product to the percentage of industrial EAP in the total EAP also measures the relative productivity of the industrial sector with respect to all sectors. In figure I the countries are arranged according to the value of the index and according to their percentage of agricultural EAP in the total EAP.

There appear to be two trends in the evolution of relative industrial productivity (figure I). In the first, led by Nicaragua, Guatemala, El Salvador, Panama, Peru and Brazil —which are

[9] Although the 1980 data were originally calculated on the basis of ISCO Rev. 2, which excludes repair shops, the figures given here were estimated in order to make them comparable with those for earlier years.

[10] The exceptions are Ecuador, Honduras and Haiti; it is probable that in these countries the urbanization which took place between 1950 and 1970 led to an increase in the workforce of the artisan sector of industry and in the tertiary branches. Note, moreover, the atypical case of Brazil which at no time in the period under consideration seems to have faced the need to absorb an informal industrial sector, for its percentage of unwaged workers in industry in 1950 was similar to the figure for Japan 30 years later.

Table 3

PERCENTAGE OF EAP IN INDUSTRY AND TRADE 1970, PERCENTAGE OF UNWAGED EAP IN INDUSTRY AND TRADE FOR LATIN AMERICAN COUNTRIES 1950-1980 AND OTHER COUNTRIES IN ABOUT 1970[a]

Country	EAP in industry					EAP in trade				
	% Total	Unwaged (% for all industry)				% Total	Unwaged (% for all trade)			
	1970	1950	1960	1970	1980	1970	1950	1960	1970	1980
Latin America										
Argentina	24.0	22.0	22.7	19.7	...	14.8	43.0	47.5	48.5	...
Uruguay	23.0	...	25.1	22.5	...	13.8	...	35.7	46.1	...
Chile	19.9	30.3	23.2	24.6	21.0	11.6	52.3	54.1	49.1	44.5
Venezuela	15.6	...	30.9	22.4	19.6	14.8	...	48.4	47.8	46.7
Colombia	17.3	42.1	33.2	...	...	...	62.3	56.3	...	...
Panama	9.9	40.3	31.1	26.7	11.5	11.8	41.5	33.2	27.5	23.4
Costa Rica	13.7	27.6	26.5	16.5	17.8	11.1	47.5	39.8	33.4	34.6
Mexico	18.5	26.9	16.9	23.2	...	10.8	71.8	61.9	49.7	...
Brazil	14.8	14.8	12.3	14.4	14.3	7.8	52.8	49.2	45.9	37.8
Peru	11.6	...	45.8	34.4	29.0	9.8	...	63.2	56.4	67.5
Nicaragua	14.6	...	40.0	38.6	...	10.0	...	59.9	59.3	...
Ecuador	15.6	36.5	56.9	44.3	...	9.8	52.2	72.0	63.7	...
Bolivia	11.3	53.0	...	49.9	...	7.5	82.9	...	80.4	...
Dominican Rep.	13.4	...	34.8	30.2	...	8.2	...	62.0	63.2	...
El Salvador	11.3	42.2	32.8	29.7	...	8.4	65.3	58.6	57.5	...
Guatemala	12.9	...	48.2	47.3	...	7.6	...	66.2	65.7	...
Honduras	10.5	42.0	43.0	43.4	...	7.9	70.1	58.5	52.9	...
Haiti	7.8	60.2	...	70.8	...	9.4	87.5	...	94.7	...
Other countries										
United States	27.0			1.5		20.3			10.0	
Belgium	32.7			5.7		8.0			46.8	
Canada	22.3			1.7		17.7			11.5	
Sweden	27.6			2.3		14.5			9.8	
Denmark	24.9			8.2		14.9			27.4	
France	27.8			4.8		15.2			27.6	
Norway	26.7			5.3		15.7			15.8	
Japan	27.0			15.2		21.4			36.0	
Italy	...			...		14.3			67.4	
Spain	27.1			9.5		12.9			41.1	
Greece	17.2			32.4		11.3			61.2	

Source: Prepared from national population-census figures and OECD and ILO data.
[a]Placed in descending order according to agricultural EAP percentages.

shown in the figure as broken lines— the movement of labour from agriculture to the other sectors takes place in circumstances of large increases in relative industrial productivity, Owing to the fact that the process of industrialization in these countries is being completed without solving the agricultural problem and with a high proportion of the labour force remaining in agriculture, heterogeneous production structures are established in which industries that have advanced by adopting the technology of their time coexist with traditional forms of agricultural production on which broad segments of the population depend for their livelihood.

The remaining countries, on the other hand, seem to follow an inverted-U trend. On the

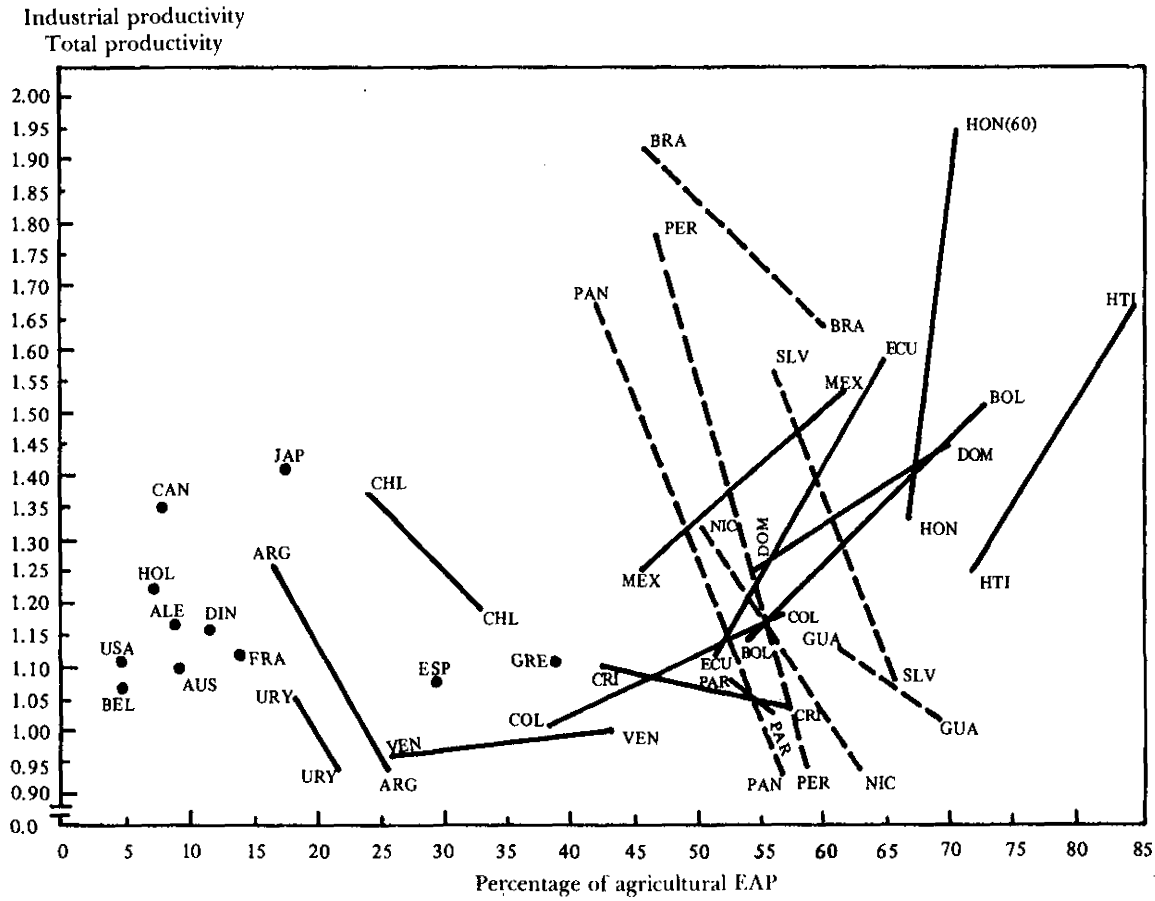
Table 4
LATIN AMERICA AND OTHER COUNTRIES: DIFFERENCES IN INDUSTRIAL PRODUCTIVITY AND PERCENTAGES OF AGRICULTURAL EAP BY COUNTRY, 1950 AND 1970

Country	Difference in productivity $\left(\frac{\text{Industrial productivity}}{\text{Total productivity}}\right)$		Percentage of agricultural EAP	
	1950	1970	1950	1970
Argentina	0.94	1.26	25.34	16.41
Bolivia	1.51	1.14	72.50	53.67
Brazil	1.64	1.92	59.70	45.60
Colombia	1.18	1.01	56.80	37.90
Costa Rica	1.04	1.10	56.84	42.01
Chile	1.19	1.37	32.60	23.80
Ecuador	1.58	1.12	64.42	51.03
El Salvador	1.08	1.56	65.60	56.10
Guatemala	1.02	1.13	68.70	61.00
Haiti	1.67	1.25	84.53	71.46
Honduras	1.94[a]	1.33	70.20[a]	66.50
Mexico	1.53	1.25	61.20	45.20
Nicaragua	0.95	1.32	62.39	50.00
Panama	0.94	1.67	56.30	41.60
Paraguay	1.03	1.08	56.00	52.60
Peru	0.95	1.78	58.16	46.22
Dominican Rep.	1.45	1.25	69.90	54.20
Uruguay	0.94	1.05	21.29	18.22
Venezuela	1.00	0.96	43.04	25.64
West Germany		1.17		8.6
Australia		1.10		8.0
Belgium		1.07		4.7
Canada		1.35		7.6
Denmark		1.16		11.5
Spain		1.07		29.5
France		1.12		13.9
Greece		1.10		38.9
Netherlands		1.22		7.2
Japan		1.41		17.4
United States		1.11		4.5

Source: OECD (1981) for the percentages of industrial EAP in total EAP. United Nations (1980) for the percentages of industrial product in total product. The figures for Latin America are own estimates on the basis of censuses and ECLA archive data on national accounts.
[a]1960.

downward side of the curve are found countries such as Haiti, Honduras, Bolivia, the Dominican Republic, Ecuador and Mexico. The rural-urban migrations bring about a reduction in the relative share of the labour force in agriculture which fosters an increase in its productivity, an increase which may also have been encouraged by the agrarian-reform programmes and technological advances that influenced several of these countries. Colombia and Venezuela are located at the bottom of the U. At the top of the upward curve are found Argentina, Chile, Uruguay and, to a certain extent, Costa Rica. In these countries industrial productivity takes the lead over pro-

Figure 1
DIFFERENTIAL PRODUCTIVITY OF INDUSTRY ACCORDING TO PERCENTAGE OF AGRICULTURAL EAP, 1950-80



Latin American countries (1950-70)

ARG:	Argentina
BOL:	Bolivia
BRA:	Brazil
COL:	Colombia
CRI:	Costa Rica
CHL:	Chile
ECU:	Ecuador
SLV:	El Salvador
GUA:	Guatemala
HTI:	Haiti
HON:	Honduras
MEX:	Mexico
NIC:	Nicaragua
PAN:	Panama
PAR:	Paraguay
PER:	Peru
DOM:	Dominican Rep.
URY:	Uruguay
VEN:	Venezuela

Other countries (c. 1970)

ALE:	West Germany
AUS:	Australia
BEL:	Belgium
CAN:	Canada
DIN:	Denmark
ESP:	Spain
FRA:	France
GRE:	Greece
HOL:	Netherlands
JAP:	Japan
USA:	United States

ductivity in the other sectors once there has been —in relative Latin American terms— significant progress in the solution of the agricultural problem, with smaller proportions of the labour force remaining in that sector.

Finally, in the integrated economies of the developed countries the pulling effect of the process of industrialization on the other sectors stimulates the growth of overall productivity, gradually narrowing the gap between sectors.

To sum up, the data analysed does not provide statistical support to justify the pessimism with which the capacity of Latin American industry to generate jobs in recent decades has been evaluated. Rather, the data suggest that this sector has performed dynamically, no matter what pattern it is judged by, and especially when it is considered in the light of the exceptional pressures brought to bear on the urban labour market by the massive shifts of agricultural workers to non-agricultural activities.

III

The tertiary sector

On the basis of the classic assertions of Fisher and Clark on the evolution of sectoral transformations in employment —which were assumed to reflect the historical experience of the majority of the developed countries— a series of studies was carried out to test for the existence of certain unilinear patterns in the changes in the structure of employment. For the purposes of this section it is important to stress two aspects of the changes noted in these studies. The first is the order of the sectors with regard to the transfer of labour from one to another. The second concerns the significance that should be attributed to the tertiary sector.

With respect to the order of the differential increases in the sectors, we know that Clark maintained that the expansion of industrial activities came before the expansion of services. In fact, however, there is sufficient evidence that this pattern of intersectoral growth seems to have been followed in only a few countries which industrialized early (Singelmann, 1978; Bairoch and Limbor, 1968). Moreover, the data presented by Clark in his original work (1940) show that this order was not found in countries such as the United States, Japan and Canada, whose industrial development took place later than in the majority of the European countries. More recent research has tended to recognize that the capacity of the secondary sector to absorb the manpower displaced from agriculture depends to a large extent on the techological level attained in the period when industrialization takes place. The relative progress in the expansion of the services workforce in the countries which industrialized late is attributable, in this view, to the greater difficulty in incorporating technological advances in the activities of this sector, which causes a closer relationship between the growth of the sector's product and its capacity to absorb labour (Berry, 1978; Browning and Singelmann, 1978: Muñoz and Oliveira, 1979).

The significance to be attributed to the expansion of services is closely linked to one's views on the sequences followed by sectors in their growth. For Clark, the relative size of the tertiary sector (and in particular that of commerce and finance) was a good indicator of the degree of development of the social division of employment and, at the same time, a good measure of the level of economic progress achieved by a country. On the other hand, those who maintained that the expansion of the tertiary sector preceded the expansion of industry were inclined to emphasize the marginal role of service activities and their function as a refuge for the surplus of urban labour which could not find a place in industry.

The subsequent discussion produced at least two important methodological developments. The first of them, pointed out by Bauer and Yamey (1951) in the first criticism of the Clark model, stresses the intrinsically heterogeneous nature of the tertiary sector, which means that

changes in the sector cannot be treated as if they were a single phenomenon. Accordingly, hypotheses that would be rejected with respect to the sector as a whole might be accepted for specific branches. One result of this position was the gradual abandonment of research and the substitution of analyses based on various attempts at disaggregation. (Singer, 1971; Singelmann, 1978; Browning and Singelmann, 1975). The second methodological innovation stresses that, if the nature of the growth of service activities is to be understood, an analysis must be made of the way in which they are incorporated in the modern system of production and, in particular, the way in which they are related to the process of industrialization. The exact extent to which the growth of services is determined by demands derived from the productive process may be established by studying the interrelationships between the sectors on the bases of input product matrices (Momigliano and Siniscalco, *op.cit.*).

The information was not available for an attempt to be made in this paper to apply the second methodological line. Instead, an attempt has been made to aggregate, for some of the countries of the region, the groups and subgroups of tertiary-sector activities in accordance with a typology proposed by Browning and Singelmann(1975). These writers classify services into distributive, production, social and personal. Owing to the limitations of the data available, some of the categories do not include all of the activities referred to by Browning and Singelmann.[11]

The purpose of the analysis of table 5, which presents data on the annual growth rates of each of the four types of service activity mentioned above for Brazil, Costa Rica, Guatemala and Venezuela, and for Peru from 1970 to 1980, is to ascertain whether the growth of the services labour force was due fundamentally to an expansion of so-called informal activities (associated with the growth of what are here called personal and distributive services) or of activities more closely connected with the process of economic and social modernization (which are here classified as productive and community). A first examination of the table reveals certain similarities with respect to the sequence of the growth rate in each country. Thus, in the five countries the largest increases are in activities connected with production services, such as banking, credit agencies, financial institutions, insurance, real estate, warehousing and general business services (employment agencies, accountants, economic information and personal credit agencies, consultants, reproduction services, etc.).

The process of industrialization contributes directly or indirectly to the remarkable expansion of these services in the form of the demands that result from the creation of new industries or the growth of existing ones or the demands generated in other sectors and among the population in general by the modernization induced by industrialization.

Despite the great growth of these activities, their share in all services is less than 7% and they generally represent proportions similar to those of the developed countries in about 1920 (table 6). In the five countries in question second place in the order of growth rates belongs to social and community services, which include the activities of the government and the armed forces, health, education, religious, social-welfare and cultural bodies, communications, urban public health, etc., designed to meet the requirements of collective consumption and control of the population and which are usually carried out as part of the apparatus of State. Although the expansion of these activities is also affected by the requirements of the industrialization process (manpower training, for example), their growth is probably influenced more by the expectations instilled in the population by the "demonstration effect" of the developed countries. The types of services created in the developed countries, and the proportion of the population that has access to them, gradually become patterns that stimulate awareness of the need for such services in the minds of the peoples of the developing countries,

[11] Repair services (which Browning and Singelmann propose should be classified under personal services) have not been taken into account. The practical reason for their exclusion is that for the majority of the countries the disaggregated data needed for separation of these services from the rest of industrial activities (ISCO Revision 1) or from service activities (ISCO Revision 2) were not available for every one of the years compared. It is important to note that, even though they are concerned with personal consumption, the repair services which have shown most growth, such as repair shops for automobiles and electrical domestic appliances, are closely connected with manufacturing production.

Table 5
AVERAGE ANNUAL GROWTH RATES BY COUNTRY, ACCORDING TO TYPE OF SERVICE

Services	Brazil	Costa Rica	Guatemala	Peru	Venezuela
	(1950 to 1970)	(1950 to 1970)	(1950 to 1970)	(1970 to 1970)	(1950 to 1970)
Distributive	3.8	5.2	3.8	5.2	4.2
Transport	2.8	5.3	4.1	2.8	3.7
Trade	4.4	5.1	3.7	6.2	4.4
Productive	7.1	13.9	7.6	10.5	6.0
Banking and finance	8.3	9.4	9.0	10.7	8.9
Insurance	2.3	11.2	12.8	10.7	11.2
Real estate	7.2	27.0	7.1	10.7	11.2
Business services	...	...	6.8	10.7	3.2
Warehousing	4.2	...	6.2	2.8	...
Social	5.2	7.1	4.0	7.5	5.5
Health and sanitation	4.9	7.1	6.3	7.6	6.9
Education	7.5	7.1	5.0	7.6	9.0
Welfare and religion	4.5	7.1	10.4	7.6	...
Government	4.1	7.8	2.8	7.6	4.3
Communications	4.1	2.8	3.5	2.8	8.9
Other social	...	...	...	...	5.5
Personal	4.8	4.2	3.0	0.9	2.6
Domestic	4.9	4.2	2.7	1.9	0.4
Restaurant and hotels	4.2	4.2	1.1	−0.6	1.9
Laundry and dyeing	4.3	4.2	−3.1	0.5	...
Hairdressing, etc.	4.3	4.2	3.3	0.5	...
Entertainment	4.9	4.2	3.8	0.5	7.0
Other personal	11.2	...	11.4		11.1

Source: Prepared on the basis of national population and housing censuses.

and this in turn brings increasing pressure to bear on governments to make such services available to segments of the population previously excluded from them. Paul Singer (1978) argues that part of the expansion of the social services should be attributed to the "control services" which come into being as a response to the social tensions generated by the rate of industrialization.

Both the share of social services in total services and the changes that took place in 1950 and 1970 are similar in Latin American and developed countries alike (table 6).

With the exception of Brazil, the distributive services —transport and trade— occupy third place with respect to growth levels. In the majority of the countries, EAP in these services constitutes the bulk of the tertiary labour force, although its relative share seems to be declining in favour of the productive and social services. Part of this decline must be attributed to the fact that the expansion of the transport workforce has been held back by the gradual replacement of public transport by private, which is associated with the enormous increase in automobile parking.

Finally, the lowest growth is in personal services, where domestic workers form the largest segment of the total labour force. These services are designed for personal and household consumption and, in the words of Browning and Singelmann (1975, p. 9), "they are most sensitive to supply and demand factors and the size of establishments is smaller than in the case of social services".[12]

[12] In a study which distinguishes personal services from government and community, business, and recreational services, in six countries of the region between 1950 and 1960 Miller (1972) also finds that employment in personal services loses its predominance in the tertiary sector, while community, business and recreational services increase their relative share in the sector as a whole.

Table 6
SERVICES: PERCENTAGE OF EAP ACCORDING TO TYPE OF SERVICE, BY COUNTRY, 1920-1970

Country	Year	Type of service			
		Distributive	Productive	Social	Personal
Italy	1920	46.2	7.0	22.0	24.7
	1950	42.2	7.6	31.5	18.7
	1970	...	...	...	...
Japan	1920	52.3	3.3	20.5	23.8
	1950	50.9	5.3	25.3	18.6
	1970	49.8	11.2	22.4	16.7
France	1920	53.5	5.9	19.7	20.8
	1950	42.5	8.0	27.7	21.8
	1970	35.5	12.6	33.9	18.1
United Kingdom	1920	44.2	5.9	20.4	29.5
	1950	41.9	7.0	26.4	24.7
	1970	34.5	10.8	37.4	17.3
United States	1920	48.7	7.3	22.7	21.4
	1950	43.3	9.3	24.0	23.4
	1970	35.9	15.1	35.0	14.0
Brazil	1950	43.4	3.0	27.3	26.3
	1970	37.3	4.9	30.4	27.4
Costa Rica	1950	40.1	2.4	25.7	31.8
	1970	34.7	6.1	32.1	27.2
Guatemala	1950	40.9	1.9	23.8	34.4
	1970	41.8	4.0	25.0	29.2
Venezuela	1950	32.5	4.4	29.0	34.1
	1970	32.3	6.0	36.9	24.9
Peru	1970	36.8	3.7	27.1	32.5
	1980	37.9	6.2	34.3	21.5

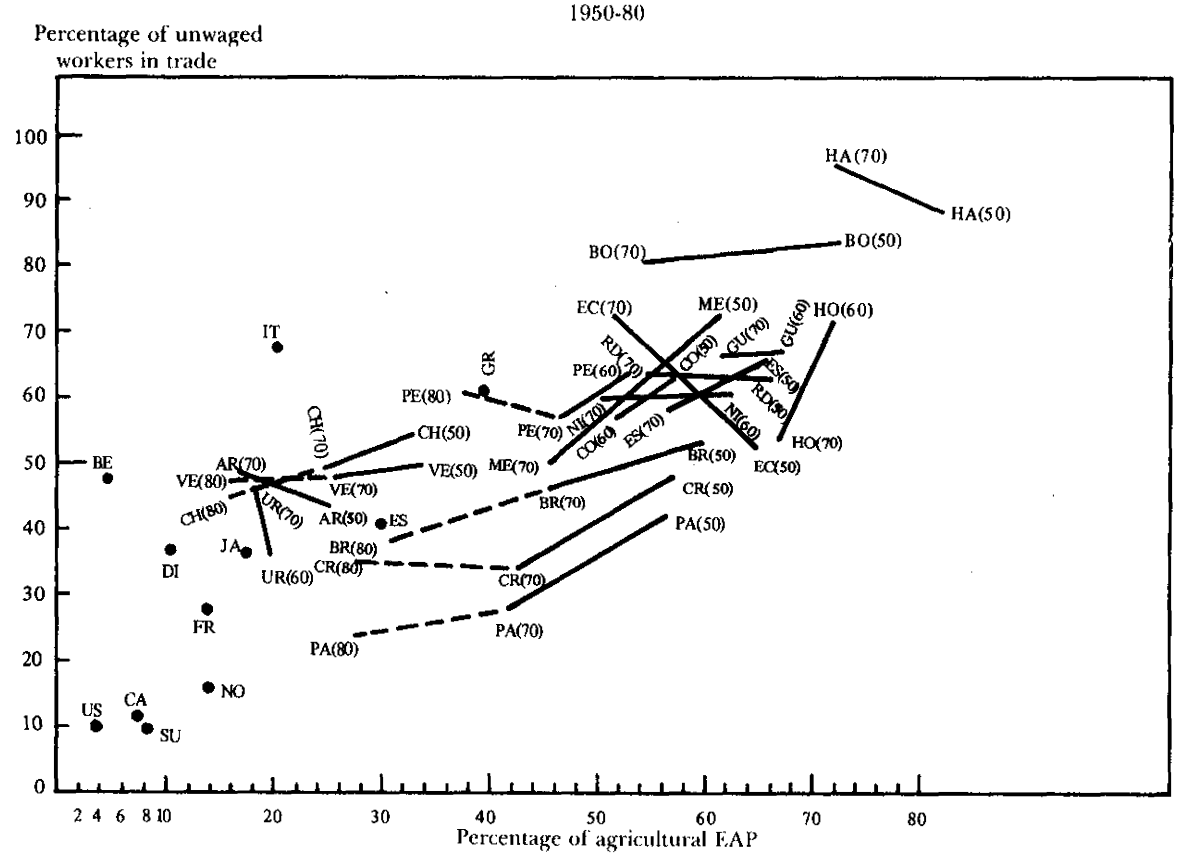
Source: Latin American countries: prepared on the basis of national population and housing censuses. Other countries: Browning and Singelmann (1978).

The foregoing analysis throws some light on the process of tertiarization in the countries of Latin America in recent decades. Basically, the data do not appear to support the view of a growing share of "informal" or "marginal" activities in the tertiary sector concentrated in the distributive and personal services. This view is based on the assumption that a considerable part has been played in the sector's expansion by low-productivity activities of relatively easy accesses which operate on a small scale and in under-institutionalized markets.[13] The segment of the labour force in question include a significant proportion, but one that varies from country to country, of persons working on their own account, independently or in small family enterprises or in personal services with very low productivity. The bulk of this segment of the labour force is made up of unwaged workers in industry and trade and waged domestic staff.[14] The evolution of these groups must therefore be analysed if the characteristics of tertiarization are to be defined accurately.

[13]For an analysis of the concept of informality see Tokman (1979) and Peattie (1980).

[14]Unwaged service workers make up about 1% of the total services EAP and this figure also includes large segments of the liberal professions.

Figure II
PERCENTAGE OF UNWAGED WORKERS IN TRADE ACCORDING TO PERCENTAGE OF EAP IN AGRICULTURE, 1950-80



Latin American countries (1950-80)

AR:	Argentina	HA:	Haiti
BO:	Bolivia	HO:	Honduras
BR:	Brazil	ME:	Mexico
CO:	Colombia	NI:	Nicaragua
CR:	Costa Rica	PA:	Panama
CH:	Chile	PE:	Peru
EC:	Ecuador	RD:	Dominican Rep.
ES:	El Salvador	UR:	Uruguay
GU:	Guatemala	VE:	Venezuela

Other countries (c. 1970)

JA:	Japan	IT:	Italy
CA:	Canada	US:	United States
BE:	Belgium		
GR:	Greece		
NO:	Norway		
ES:	Spain		
FR:	France		
DI:	Denmark		
SU:	Sweden		

In the previous section we saw that between 1950 and 1970 the relative proportion of unwaged industrial workers in the industrial labour force declines rapidly and that this downward trend continues in the following decade. Table 3 showed the evolution of unwaged workers in trade and figure II relates this to the percentage of EAP in agriculture. It can be seen that, as in the case of industry, there is a general downward trend of the relative proportion of these workers in the total labour force in trade, but unlike industry, in 1970 this sector tends still to have a large percentage of unwaged workers, even in countries in which agricultural EAP shows a decline. The fall in the proportion of unwaged workers in the trade labour force is probably connected with the static or slow absorption by other sectors of the economy of informal trade units which, depending on the country, can constitute a large part of the total of trade units operating with unwaged labour.

With a view to expanding the frame of reference and throwing a little more light on the relationship between unwaged workers in trade

and informal activities, it is useful to examine the data for the developed countries presented in table 3 and figure II. The table shows that while there seems to be a generalized pattern in the development of industry of incorporating almost the whole of the sector's workforce as waged workers, this does not happen in trade, where the proportions of unwaged workers show a very broad range of variation, which in the case of the developed countries runs from 10% (Sweden and the United States) to 67% (Italy). The existence and persistence of family enterprises in trade seem to be connected in some European countries with the forms of urban settlement that took place in the past, the average size of towns and the relationship between them, and the cultural patterns that developed from the relationships between consumers and distributors of goods.

If this is true, the moment in history at which urban and trade expansion takes place is an important date for understanding the likelihood of small business enterprises coming into being and maintaining themselves as integrated units in the general cycle of production and distribution of goods. This argument has useful methodological implications for the determination of the "informal" sector, in that consideration of the historical evolution of urbanization in each country should make it possible to define more accurately the contexts in which a greater or lesser correspondence between "informality" and types of business units may be expected. For example, in the Latin American countries which underwent urbanization relatively early, such as Argentina and Uruguay, the expansion of trade occurred at a time when the sector's technology favoured the establishment of businesses based in families. Furthermore, the large-scale immigration from the countries of southern Europe brought with it the forms of business organization which predominated in the countries of origin. The infrastructure of the network of inputs necessary for the operation of these organizations and the cultural patterns that guided consumer attitudes had an opportunity to mature and strengthen before having to face the competition from new forms of organization associated with the technology of modern businesses. In such a context there may not be any association, or only a weak one, between own-account workers in trade and the characteristics attributed to "informal" activities. Instead, in the countries which underwent urbanization recently, such as, for example, the countries of Central America, part of the trade expansion which fuels urbanization adopts current business techonology, and both the input network and the patterns of public consumption are structured primarily around the dominant type of business, and this becomes a limiting factor on the development possibilities of family-based enterprises. In this kind of context, it is very probable that the characteristics attributed to "informal" activities have more in common with those of family businesses.

IV

Conclusions

Historical experience and international comparisons of countries with different levels of development all predict that the countries of Latin America will continue to undergo massive shifts of labour from agriculture to other sectors of activity. The modernization of production together with the gradual establishment in the countryside of enterprises of a clearly capitalist cut will contribute to this process, as will the increasing expectations of the rural population for access to services which are still mainly concentrated in the urban centres. A variant of this process, on which separate information is at present available although not in sufficient quantity for evaluation of its relative importance at the national level, is the increase in segments of the population living in the town which combine over the year agricultural activities with work in industry or services in response to the demand generated by the replacement of permanent by temporary agricultural workers.

The impact of the rationalization of agricul-

ture on changes in the relationships of production has differed according to the principal agricultural products, the existence and effectiveness of agrarian-reform programmes, the strength of the cultural roots that bind communities to the land, the rate of introduction of agricultural technology, etc. The partial evidence offered in this article points to the existence of this diversity and, conversely, to the lack of a uniform pattern of proletarianization or movement towards small farming in the countries of the region.

With regard to the non-agricultural sectors, the data examined do not support the picture of an industrialization process that has only a weak capacity to generate employment, especially in view of the enormous numbers of workers that are incorporated in urban activities and the types of technology that may exist at the time when industrialization takes place.

Although the first impact of the transfer of agricultural labour to the towns would have produced a growth of services poorly integrated into the process of industrialization, this would still have permitted the formation of an urban labour market and a concentrated consumer demand which would have promoted industrial expansion. This process would be reflected in the speed-up in some countries in the growth of the industrial labour force relative to the growth of non-agricultural EAP from 1960. At the same time, there would have been a gradual incorporation of services into the industrialization process which would have led to a new upswing in tertiary growth, but this time of a different kind and closely associated with the inputs required by industrial development and with increased access to services resulting from the greater productivity generated by industrialization.

Given the standpoints from which structural transformations are at present analysed, it is not possible to explore the degree of integration and, in general the interactions between industrial growth and the growth of services. In order to trace intersectoral connections, it is necessary to formulate methodologies, possibly on the basis of input-product matrices, for studying the repercussions on the sectors of employment created in one of them.

To the extent that "informality" is reflected in greater or smaller numbers of unwaged workers, the information presented does not support the picture of an advance in these activities in either industry or trade; the fact is rather that they are gradually absorbed by the modern sector of the economy.

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Changes in employment and the crisis

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

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

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

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Introduction

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

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

I
Long-term trends

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

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

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

1. *Latin America 1950-1980*

a) *The facts*

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

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

Non-agricultural modern activities —or urban formal activities in PREALC terminology— absorbed labour at a high rate. The employment generated in these activitites grew by 4.1% annually —that is to say, slightly faster than the growth of the urban labour force. Around 1950, however, non-agricultural modern activities only represented 70% of the urban labour force. As a result, even with slightly higher growth rates, the expansion of urban modern employment was lower in absolute terms than the growth of the urban labour force. In other words, despite the high rates of modern job creation, the increased urban labour supply could not be entirely absorbed (tables 2 and 3).

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

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

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

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

To avoid confusion, it should be stressed that the growth of the informal sector and of the urban underemployment associated with it is explained by the speed of rural-urban migration and the relative incapacity of the non-agricultural modern activities to absorb this high pressure of supply. Thus, the share of informal employment in the urban labour force declined between1950 and 1980 from around 31.0% to 29.0%, which confirms that its increased share in the total labour force was a result of the massive shift of labour to urban activities. In the United States, in contrast with what occurred in Latin America, there was a marked decline in the share of informal employment in the urban labour force, which culminated around 1920. Moreover, whereas in the United States informal activities tend to be concentrated in the services sector, in Latin America they are spread over the different urban activities.

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

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

Table 2

LATIN AMERICA: SEGMENTATION OF THE ECONOMICALLY ACTIVE POPULATION AND UNDEREMPLOYMENT COVERAGE: 1950 AND 1980

(Percentages)

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

Source: Data prepared by PREALC.

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

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

Source: Data prepared by PREALC.
[a] Or urban formal employment in PREALC terminology.

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

b) *The explanatory factors*

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

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

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

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

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

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

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

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

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

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

2. *Diversity by countries*

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

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

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

(Simple average of the annual coefficient, in percentages)

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

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

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

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

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

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

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

The countries in group C —Argentina, Chile and Uruguay— are defined by two main features. The first is that already in 1950 they had an urban labour force proportionately much greater than the rest of Latin America. In close relation to the foregoing, their levels of underemployment and under-utilization were lower than the regional average. The second feature is that, contrary to the situation in the other countries, they show changes in trend between the two first decades analysed and the last ten years. This is due to the changes made in the economic policy of the three countries during the latter period, which had a negative effect on labour absorption. Hence the three countries are characterized by abrupt increases in the proportion of the total labour force working in the urban informal sector in the last decade and, in the cases of Chile and Uruguay, marked rises in unemployment also.

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

II

Crisis and employment

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

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

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

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

1. *The increase in open unemployment*

Urban open unemployment rose from around 7% in 1980 to 10.4% in 1983 [1] (table 5).

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

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

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

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

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

Table 5
LATIN AMERICA:
RATES OF URBAN OPEN UNEMPLOYMENT

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

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

[a]Greater Buenos Aires. Average April-October.

[b]La Paz. 1978 and 1979: second half-year; 1980; May-October; 1983: April.

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

[d]Barranquilla, Bogotá, Cali and Medellín. Average March, June, September and December. 1978: average March, June and December.

[e]National urban rates. Average March, July and November.

[f]Greater Santiago (INE). Average four quarters.

[g]Metropolitan areas of Mexico City, Guadalajara and Monterrey. Average four quarters. 1983: average three quarters.

[h]National urban rates. 1980: advance census data; 1981 to 1983: urban metropolitan region.

[i]Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Lorenzo.

[j]Metropolitan Lima. 1970: August-September; 1978: July-August; 1979: August-September; 1980: April; 1981: June.

[k]Montevideo. Average two half-years.

[l]National urban rates. Average two half-years. 1983: first half-year.

[m]Includes only the countries for which information for all the years is available. Simple average.

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

2. *The increase in visible underemployment*

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

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

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

3. *The fall in real wages*

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

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

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

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

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

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

4. *The increase in invisible underemployment*

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

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

Unfortunately we have no detailed informa-

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

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

Source: PREALC based on data for each country.

Table 7
EVOLUTION OF INTERSECTORAL DIFFERENCES IN WAGES

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

Source: Table 6.

Notes:
W_i: Real industrial wages. Index 1970=100.
W_m: Real minimun wages. Index 1970=100.
W_c: Real construction wages. Index 1970=100.
R_i: Industrial wage received in 1970. In national currency.
R_m: Minimun wage in force in 1970. In national currency.
[a]Refers to 1982.
[b]Refers to 1974.

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

III

Conclusions

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

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

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

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

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Social use of the surplus, accumulation, distribution and employment

*Armando Di Filippo**

This article explores the structural heterogeneity and the insufficient dynamism of Latin American societies, with special reference to the use they have chiefly made of the surplus. It postulates that the global surplus represents a very high proportion of income, but the pace and orientations of accumulation do not suffice to redeem the labour force subsisting in the lower strata from the depths of intolerable poverty. As a counterpart, over-consumption of the surplus increases social inequalities, and promotes the imitation of life styles —proper to the centres— which correspond to much higher levels of productivity and income.

The first section recapitulates these ideas, which are, of course, nothing new in ECLAC thinking. In the second and fourth sections an attempt is made to provide a minimun analytical base for the foregoing theses, founded on well-known propositions of the contemporary theory of growth. The third section offers a synthesis of some recent contributions published in this same *Review*, relating to the "real" role of monetary variables in the social struggle for the appropriation of the surplus.

The fifth section presents two typical and contrasting situations with respect to the ethic underlying the accumulation process. In the last section a minimal frame of reference for the study is sketched from a broader standpoint; this is indispensable for an adequate appraisal of development and development styles in peripheral societies.

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Introduction

In Latin America the accumulation process has not managed to achieve either the pace or the patterns required to generate jobs of sufficient productivity, at a rate that would make it possible to do away with structural heterogeneity. Structural heterogeneity can be thought of as the coexistence of forms of production and social relations —of ownership, labour and trade— pertaining to different phases in the history of peripheral development, but interacting within politically unified national societies. The historical roots of structural heterogeneity stretch back, in Latin America's case, to the region's colonial past and its subsequent peripheral insertion in the international capitalist order (Pinto, 1965 and 1970).

This does not mean that the rate of absorption of manpower in the higher strata of productivity has been slow. On the contrary, it has been very swift, but nevertheless not swift enough. The insufficient dynamism of Latin American development has subsisted notwithstanding an accumulation process which, having created higher-productivity jobs at a very rapid rate, has acquired neither the tempo nor the modalities necessary for the gradual eradication, in reasonable periods of time, of underemployment and critical poverty (García, 1982 and Tokman, 1982).

An underlying potential in the economic system for still further speeding up its rate of accumulation and of creation of employment opportunities exists in Latin America, where the fuctional distribution of income determines a ratio between global surplus and wages and salaries far higher than that existing in the central economies. But the social use of that surplus has developed a bias towards patterns of consumption —imitative of those prevalent in the centres— which are not in keeping with the average levels of labour productivity attained by our peripheral societies. Hence derives a process of accumulation whose rate is insufficient —high though it is compared with that recorded in the centres— and whose orientation is undesirably slanted towards non-reproductive forms of capital (Prebisch, 1981 and 1982).

The aim of the present article is to provide a minimun analytical and conceptual basis for these ideas. In the first place, a study is made of the concept of structural heterogeneity, dis-

tinguishing between its technological and its economic significance. The incidence of the unsatisfactory social use of the surplus in our peripheral societies upon their insufficient dynamism is likewise brought into prominence.

For the purposes of an analytical sketch of these ideas, which have long been fostered by ECLAC, the classic concept of the economic surplus is introduced and economic development is characterized as a systematic increase in the average productivity of human labour.

As is common knowledge, the concept of ecomonic surplus —understood as that part of the social product which is not appropriated by the labour force that has directly generated it— has been attacked by the neoclassical marginalist school of thought and superseded by the theory of marginal productivity. The old political economy tradition, however, has also been taken up by the contemporary theory of growth. ECLAC's conceptions can be comfortably fitted into the analytical framework of these ideas that were launched by Ricardo and further developed by Marx, Kalecki, Keynes, Robinson, Harrod, Domar, Kaldor and Pasinetti.

The effort made here to construct such a theoretical framework is precarious and inadequate. It must be interpreted as an invitation to any who, better equipped for the task, can continue it in the future. Even so —with all its shortcomings— this conceptual recapitulation affords an opportunity to stress how far removed are the ideas of ECLAC —and of those economists who have decisively contributed to the forging of its lines of thought— from the neoclassical conceptions associated with the theory of marginal productivity.

This theory, conceived in conditions of stable general equilibrium and perfect competition, is the pith and marrow of the neoclassical recommendations on wage and employment policy. Setting aside the classical and Marxist concept of a subsistence wage, the neoclassical approach suggests that over the short term unemployment is attributable to institutional barriers which prevent wages from dropping to their 'equilibrium' level equivalent to the marginal productivity of labour. These issues have been debated at great length since the time of Keynes in so far as the causes of unemployment are concerned, and since much farther back still in the history of ideas, as regards the legitimacy of remunerations of the capital factor. This is not the place to attempt a fresh review of those bygone controversies; the aim here is simply to bring to the fore two important 'social functions' of a frankly ideological character which are performed by the theory of marginal productivity: that of legitimizing remunerations of capital and that of laying the blame for the existence of unemployment on institutional rigidities which push up wages.

But the theory of marginal productivity also looms up as a conceptual barrier to a proper understanding of the economic development process, inasmuch as it distorts the concepts of capital and labour to make them 'fit' into a 'good behaviour' production function.

Consequently, it will be as well to give a categorical warning that in this study the concept of marginal productivity in its neoclassical sense is totally meaningless.

The guiding thread of our conceptual recapitulation is the productive capacity of human labour, the increase in which, century by century, has been, since the dawn of civilization, the cornerstone of economic development. We shall reinstate the idea of the surplus, which acquires an economically precise significance in contemporary capitalist societies. We shall distinguish between the means of production and the capital that is a power exercised in the markets for the said means of production, which become capital goods when purchased by the capitalist.[1] In this context capital is envisaged as a social form of power objectified and measured through the possession and use of money. Capital as a 'factor of production' cannot be apprehended as such in the technological sphere proper. At least it cannot from a macroeconomic viewpoint, where the concept of productivity of capital is lacking in any precise technological significance.

On the basis of these preliminary considerations we shall attempt in what follows to take as a guiding thread the productive capacity of human labour and to discuss the social forms of its utilization and appropriation in capitalist societies.

[1]For a more detailed examination of this concept of capital —of Schumpeterian origin— see Armando Di Filippo (1980).

I

Structural heterogeneity and insufficiency of dynamism in peripheral societies

The structural heterogeneity of peripheral societies derives from the heavily slanted and uncertain penetration of the production processes and social relations which accompany capitalist development. In simpler terms, it is an expression of the unequal and precarious diffusion of the economic and social patterns of capitalist development as it takes place in the centres.

We have said that an essential feature of economic development is a systematic and recurrent increase in the productivity of labour. Economic theory —both liberal and Marxist— assumes that any technological innovation is prone to spread through all the enterprises in a given branch of production, thus promoting the homogenization of their production processes, and the attainment of relatively analogous internal levels of productivity.

In the following exposition of the economic and social forms taken by structural heterogeneity, which belie this supposed tendency towards homogenization of the productivity of labour within each branch of activity, a distinction will be drawn between the technical and economic expressions of labour productivity (Pinto, 1965).

Taking any branch of production, we can divide its total value added (V) in a specific period by the total number of workers employed in it (T), and obtain the expresion $\frac{V}{T}$, which represents the economic manifestation of labour productivity. The value added expresses the difference between the sales price (p) and the unit cost (c_m) of intermediate inputs, multiplied by the quantity of units sold in the period (Q), all this being divided by the number of workers employed (T).

$$\frac{V}{T} = (p - c_m) \times \frac{Q}{T}$$

This expression enables us to distinguish, within each branch of production between the technical expression of the average productivity of labour ($\frac{Q}{T}$)and its economic expression ($\frac{V}{T}$)

The technical expression of labour productivity within each branch of production can be measured in physical units, and is comparable only with another unit of production in the same branch making similar products. Underlying the technical inequalities in productivity is the purchasing power of capital at the disposal of the different entrepreneurs, since this determines their real possibilities of modernizing their efficiency and stepping up the average productivity of labour.

From this angle a distinction could be drawn between at least three technological strata *within* many branches of production: the "modern" stratum, utilizing productive techniques which are current in the developed capitalist centres and whose introduction into the Latin American economies is often attributable to the dynamics of transnational capital; the "intermediate" stratum, by which is meant not only a mere statistical category, but also the real referent of those processes of production which, being proper to industrial societies, have become obsolete in the centres; and, lastly, a lower stratum characterized by the pre-industrial (and even, in some cases, pre-Columbian) nature of its production techniques.

But the differences in productivity mentioned hitherto are purely technological; to obtain their economic expression each unit produced must be weighted by the value added that it acquired in each phase of the production process. This value added, as we have said, is equal to the difference between the unit price of the product and the cost of the intermediate inputs needed for processing each unit ($p - c_m$), and expresses the value of the profit made plus the remunerations paid to the owners of the other factors of production.

From another standpoint, this difference reflects the bargaining power of enterprises in the supply and demand markets. To revert to the technological categorization in three strata, enterprises beloging to the technologically modern stratum, inasmuch as their operations are often on a large scale, usually hold monopolistic posi-

tions in the markets where their products are on supply and monopsonic positions in the markets to which they take their demand for inputs. Thus, their monopsonic positions deriving from the substantial weight carried by their demand for intermediate inputs enable them to reduce the cost of their inputs and raw materials. Consequently, their *economic productivity* is high not only because their *technical productivity* is high likewise, but also because their power in the market enables them to maximize the relation $(p - c_m)$ on which the value added per unit of output depends. The technologically intermediate production units lack the market power shown by the modern enterprises, and take up comparatively narrow "market tracks", adapting themselves to the price levels fixed by the large-scale and high-productivity modern enterprises, and unable to benefit to the same extent as the latter by the lower costs of the inputs they require. Enterprises in the pre-industrial technological stratum are not, strictly speaking, capitalist enterprises at all, since their aim is generally subsistence rather than profit and accumulation. They take advantage of the market 'loopholes' which are not occupied by the capitalist enterprises. Their economic productivity is minimal not only for technical reasons, but also because of their disadvantageous insertion in the supply and demand markets where they offer their products and obtain their inputs. In trade, they are a puny appendix to the other strata, whose products they retail. In agriculture, alongside modern farms, there is still a peasant sector, of considerable size in some countries, where definitely precapitalist production techniques and social relations survive.

We have attempted to illustrate schematically how it is that the heterogeneity of productivity is due not only to the positions of enterprises as regards productive capacity in the purely technological sphere, but also to their purchasing power positions in the sphere that can more properly be termed economic. These latter positions are obviously influenced by the institutional régimes that regulate the ownership of capital and enterprises and the more or less monopolistic and oligopolistic conditions prevailing in the *markets* for products or inputs.

Thus, within each branch of production, labour productivity is an average which conceals significant internal disparities, originating both in unequal absorption of technical progress, and in unequal insertion in the régimes that regulate control of capital and trade in inputs and outputs.

Within the three-fold stratification that we have proposed as a heuristic device, it is the enterprises in the technologically modern stratum that are in a position to pay the highest average wages, precisely because their levels of economic productivity are so high.

In addition to their position in the stratification of productivity per worker the bargaining capacity of wage-earners in the modern stratum is particularly good, owing to their educational levels, to the better internal organization of their trade unions, to the more generous financing they can provide for economic, legal and financial advisory assistance, to the consequent professionalization —and bureaucratization— of their representatives, and so forth.

From a dynamic point of view, however, the rate of increase of average wages in the modern sector does not need to keep pace with that of labour productivity to enable employers to preempt the more skilled manpower, since the supply of workers at pre-existing wages already far exceeds demand.[2]

In the stratum which, by reason of its levels of labour productivity, we have called intermediate, levels of technical and economic productivity are not sufficiently high for it to match the wage levels prevailing in the modern sector. The abundant supply of manpower also exerts a downward pressure on wages.

In the pre-industrial or subsistence strata the minimal level of technical and economic productivity represents an objective ceiling for the income of the labour force subsisting in conditions of structural poverty (Di Filippo, 1981).

Economic development is generated by the superimposition of technical layers in which

[2]Larger-scale and higher-productivity enterprises also need, to a variable extent, unskilled or almost unskilled workers. They help to generate the average productivity of the enterprise, but the rates of increase of their wages are far below those of the productivity in question, although they are higher than the average wage earned by workers whose level of skills is the same but who are employed in smaller-scale and lower-productivity enterprises.

labour productivity and efficiency are higher upon the pre-existing technical layers. In the course of this process, as it tends to work out in the centres, the lower-productivity and less efficient technical layers gradually disappear, and the manpower previously employed in them moves up into higher-productivity strata.

The root cause of the insufficient dynamism of Latin American development lies in the fact that the lower-productivity strata do not disappear in the course of peripheral development, but continue to exist and to harbour significant percentages of the total labour force. This process of insufficient absorption is the dynamic counterpart of the structural heterogeneity of the economic system and the basic framework which accounts for the persistence of critical poverty in the region.

The insufficient dynamism is also due to the inadequate rate and inappropriate orientation of the capital accumulation process. The *rate* of capital accumulation is inadequate —although not necessarily slow— because an over-large proportion of the global surplus is used for unproductive consumption. The *orientation* of capital accumulation is inappropriate —for the purposes of remedying the insufficiency of dynamism— because the concentrated distribution of income disposable for consumption fosters the imitative introduction of the centres' patterns of consumption, which correspond to economies with far higher levels of average labour productivity (Prebisch, 1981).

If too big a fraction of the global surplus is used for consumption, this does not mean that the global surplus is small, or that its growth rate is not sufficiently dynamic. In reality, in the peripheral economies the surplus per worker follows a quite rapid upward trend.

What is important is that the global surplus be used in such a way as to raise the rate of increase of accumulation and redirect its course towards reproductive applications that will be beneficial to development (Prebisch, 1981).

II

Surplus and profit in the theory of growth

In the 1930s Keynes (1945) challenged the neoclassical paradigm of stable general equilibrium exploring situations of shortfall in effective demand which were reflected in over-saving in relation to the investment planned. For the neoclassical school such a situation was theoretically "unthinkable" because there would always be a rate of interest capable of levelling up the amounts saved and invested. Keynes retorted with his consumption function —dependent upon income— and considered saving too to be primarily dependent upon income. Thus he formulated his concept of the multiplier, according to which the magnitude of income growth was established as a fuction of the growth of investment equivalent to the inverse of the marginal propensity to save.

$$dY = dI \cdot \frac{1}{b}$$

where:
dY = income growth;
dI = growth of effective demand for investment goods;
b = saving/income coefficient.

This short-term Keynesian view from the demand side was analysed and enriched by Domar (1966), who brought out the fact that, on the supply side, investment was creative of new productive capacity, such that:

$$dP = dK \cdot \frac{1}{k}$$

where:
dP = growth of the production capacity of the economy;
dK = growth of capital, or investment (dK = I);
k = incremental capital/output ratio.

Over the long term, macroeconomic equilibrium with adequate utilization of production capacity required that —starting from an initial situation of equilibrium— the growth rate of investment should be such as to enable production

capacity to increase *pari passu* with effective demand. Consequently, if dP = dY , then:

$$\frac{dI}{I} = \frac{b}{k}$$

Investment should increase at a rate equal to the quotient of the propensity to save and the incremental capital/output ratio. Domar, like Keynes before him, again challenged the paradigm of stable general equilibrium, asserting that the system lacked self-regulating mechanisms which would guarantee a satisfactory growth rate of investment.

The long-term avenue of approach opened up by Domar was subsequently explored by Harrod (1966), who warned that full utilization of production capactity did not guarantee full employmet of the labour force. Thus he introduced the concept of a "natural" growth rate, i.e., the highest sustainable rate that technical conditions allow the system to reach.

$$g_n = \frac{da}{a} + \frac{dT}{T}$$

where:

g_n = "natural" growth rate of output;

$\frac{da}{a}$ = growth rate of average labour productivity;

$\frac{dT}{T}$ = growth rate of the labour force.

It should be recalled that Domar's equation represented a condition of equilibrium, in accordance with which the system could achieve stable expansion, the growth rates of all variables becoming equal and both the average and the incremental capital/output ratio being stabilized. Consequently, in Domar's view, in a state of equilibrium the growth rate of output was the same as that of investment. It should not be forgotten, however, that this equilibrium was not based on the existence of supposed automatic regulatory tendencies in the economic system.

Harrod's equation also introduced an additional condition: to preserve full employment of the labour force it was necessary for output to increase at a rate (g_n) equal to the sum of the growth rates of the manpower supply and of labour productivity.

Thus a new and more complex condition for equilibrium was introduced:

$$g_n = \frac{b}{k} \text{ or likewise } b = g_n \cdot k$$

If what is desired is long-term equilibrium with full utilization of production capacity and of the labour force, the propensity to save (both incremental and average) must be equivalent to the natural growth rate multiplied by the capital/output ratio.

This is a very rigid relation because each of the three variables considered is determined by different causes, and there is no self-regulatory mechanism in the system to ensure fulfillment of the condition of equilibrium. Once again this relation calls in question automatic tendencies towards stable equilibrium.

The neoclassical marginalist school of thought has attempted to make the foregoing equation more flexible, by interpreting the incremental capital/output ratio as the inverse of the marginal productivity of capital. Thus, using production functions of the Cobb-Douglas type, it based its conception of adjustment on the assumption of variations in the marginal productivity of capital. Solow (1966), for example, explored this alternative, including a large number of 'heroic' assumptions which Harrod and Domar did not require. Thus, the neoclasical marginalist school tried to 'phagocytize' this line of thought and eliminate its irritant heterodoxy.

The Cambridge legates of the classical tradition, however, chose a second path. Deviating from the artificial assumptions inherent in the operation of a no less artificial macroeconomic production function, they resorted to their most authentic theoretical genealogy.

Kaldor (1966) reinstates the concept of the surplus —which he calls profits— and makes a dichotomic division of income (Y) into wages (S) and profits or surplus (E).

Total saving then appears as the sum of the saving of wage-earners (A_s) and of the recipients of the surplus (A_e).

$$A = A_s + A_e = b_s \cdot S + b_e \cdot E$$

in which b_s and b_e are the respective savings coefficients of wage-earners and of the recipients of the surplus.

In a line of argument already explored by Kalecki, Kaldor introduces the assumption —classical and Marxist— that workers do not save, therefore:

$$A = b_e \cdot E$$

whereby tha savings coefficient becomes a function of the functional distribution of income between wages and surplus.

$$b = \frac{A}{Y} = b_e \frac{E}{Y}$$

Substituting this magnitude in the Harrod and Domar equation we get:

$$b_e \cdot \frac{E}{Y} = g_n \cdot k$$

If k is an incremental and average capital/output ratio such that in a situation of long-term equilibrium:

$$k = \frac{dK}{dP} = \frac{K}{P}$$

then:

$$b_e \cdot \frac{E}{Y} = g_n \cdot \frac{K}{P}$$

Since in equilibrium output, income and effective demand are equal (P = Y), the result is:

$$\boxed{\frac{E}{K} = \frac{1}{b_e} \cdot g_n}$$

generally known as the Cambridge equation.[3]

The neoclassicals would repudiate this argument. They would say that profit is not a surplus nor is it derived from growth; that in conditions of equilibrium, profit is simply a remuneration equivalent to the marginal productivity of capital and that an increase in the average productivity of labour can only generate exceptional and temporary profits, which are incompatible with the general equilibrium of perfect markets and disappear when this equilibrium is re-established.

On the other side, the Cambridge school rejects the neoclassical production fuction and conceives of profit as an authentic surplus in the old-time classical tradition. Even within the classical tradition, however, the principles of Say's law and of the theory of labour value itself indicate that increases in productivity should be reflected in a correlative price decline and could not generate any type of surplus, except perhaps a temporary entrepreneurial profit, while the price adjustment lasted. The Cambridge equation was not designed to explain these points. In order to clarify them it is necessary to devote explicit consideration to the 'real' economic role played by monetary variables. This topic will be dealt with in the next section.

Later on, in a subsequent section, we shall revert to Cambridge equation as a basis for an attempt at analitycal explanation of the factors affecting the rate of accumulation. In both cases the aim will be to throw into relief the way in which not only the genesis of the surplus but also the rate of accumulation depend, in the first place, on the power relations that determine the functional distribution of income and, in the second place, on the socio-cultural factors that influence the consumer habits of the recipients of the surplus.[4] These cultural and power factors operate in a technological framework defined by the levels previously attained in the productive capacity of labour.

[3]The theory of profit and distribution which is common to many macroeconomic models formulated in Cambridge has grown up as a development of the Harrod-Domar economic growth model. All these models are, of course, theories of long-term equilibrium. They envisage full employment systems in which economic growth possibilities are externally determined by the increase in the population and by technical progress. Consequently, the volume of investment —in physical units— necessary to maintain full employment through time is externally determined likewise. The interesting expedient which has made the analytical formulation of these models so simple and so manageable consists in assuming that growth possibilities, determined externally, increase through time at a constant proportional rate, i.e., in accordance whith an exponential function. When this happens and the corresponding investment is really effected, all economic quantities increase through time at the same proportional growth rate, so that all interrelations remain constant. The system expands but keeps its proportions constant (Pasinetti, 1978).

[4]In this connection Pasinetti (1978) has shown that the global rate of profit —in the sense of the Cambridge equation— and the functional distribution of income are independent of the workers' propensities to save.

III

Basic mechanisms of appropriation of the surplus

In the Keynesian wiew of demand it is assumed that expenditure is a generator of income, and that is the significance of the multiplier, incorporated in the Cambridge equation through the inclusion of the savings coefficient.

However, the converse is also true, in the sense that income generates demand. Enterprises pay out income to the various owners of the factors of production. From the standpoint of the enterprises, that income forms part of the price of the product at factor cost. From the standpoint of the recipients of that income, it becomes purchasing power which is used to buy the final product supplied. If all the income is spent, it ought to permit complete realization of the final goods emerging in the production sphere as a counterpart of the said income. On the basis of these postulates, the surplus can be considered from the standpoint of its commercial appropriation, i.e., the utilization of the purchasing power which is distributed in the form of income and generates final demand. Let us asumme that enterprises are the only generators of income in the system —for example, in a closed model excluding government transactions. Obviously, if enterprises only pay wages to the labour force, those wages will be the sole source of effective demand and therefore wage-earners will appropriate the whole of the social product. This means that the functional distribution of *monetary* income is essential for the commercial realization of the surplus. The owner class can appropriate the surplus only if it has the requisite nominal income at its disposal. The corollary of this is that the overall level of prices is not a merely monetary problem which can be dealt with quite independently of the appropriation of the surplus at the real level. With the distribution of income to the receivers of the surplus, the overall price level rises, reducing the purchasing power of the labour force and making it possible for the surplus to be appropriated by the owner class. This does not necessarily presuppose inflation, since remunerations for ownership are a permanent structural component of the functional distribution of income in a capitalist society. Consequently, the surplus appropriated in this way may be termed a *distribution surplus* (Di Filippo, 1980 and 1981).

The foregoing considerations do not call in question the validity of Say's law, according to which supply creates its own demand. Enterprises, in order to be able to produce, pay wages, rents, interest and other forms or remuneration which enable them to generate a real supply, and concurrently to distribute the income whereby that supply can be realized on the market. We are confronted with a "zero-sum game", in which enterprises recoup in the form of demand the same amount of income as they disbursed to cover the cost of the production they supply.

Let us now assume that a wave of technological innovations begins which increase the productivity of human labour and generate growth. In that case the opinion of established theory is that the overall price level must fall until it once again coincides with the lower costs deriving from the innovation. During the period in which prices are adjusting to the new and lower level of costs, the enterprises that introduced the innovation will be able to enjoy a temporary and exceptional profit which is the fruit of a situation of disequilibrium. Schumpeter (1968 and 1939) and Keynes (1953) define profit in this way, i.e., as the product of a transient situation of disequilibrium. Schumpeter derives his theory fron the economic cycles of these waves of technical progress that increase the productivity of labour. Keynes, in his *A Treatise on Money*, defines macroeconomic profit as the fruit of an excess of effective demand (G = I - A). For the neoclassical marginalist school of thought this anomaly is of no theoretical significance. It represents nothing but a fleeting deviation from equilibrium, and the system automatically adjusts itself, returning to the long-term general equilibrium of neoclassical theory in accordance with which average and marginal costs are ultimately evened with prices. This automatic adjustment has two justifications. At the macroeconomic level it depends upon the above-mentioned Say's law. At

the microeconomic level it depends upon inter-entrepreneurial competition.

In recent studies, however, Prebisch has challenged these conclusions, attributing to macroeconomic profit —in the sense in which Keynes and Schumpeter used the term— a permanent character, in so far as the growth of employment and the introduction of technical progress are permanent likewise, because income anticipates in the form of final demand the output generated against the payment of that income. This is a structural feature inherent in the technical characteristics of production of goods. When conditions are expansionist in productivity and —an important point— *in employment*, each period's output, by virtue of the aforesaid time-lag, is purchased with the higher income corresponding to subsequent production cycles. Thus the *productivity surplus* remains in the hands of enterprises in the form of profit *which does not disappear* but is maintained in conditions which might be described as 'stable general disequilibrium' (Prebisch, 1981).

It migth be suggested that a full understanding of Prebisch's concept of surplus entails explicitly taking into account the distribution surplus, whose relative magnitude is very high in Latin American societies.

For example, if nominal wages move upward more slowly than the global monetary surplus and the general price level, we are faced with an inflationary process which may increase both the pre-established distribution surplus and the "dynamic surplus" in Prebisch's sense. But even in conditions of price stability, trends and reorientations in the distribution of labour productivity increments depend upon the changes in the functional distribution of *monetary* income. These changes may decisively modify the relative size both of the distribution surplus prevailing up to that time, and of the 'new' dynamic incremental surplus, for which the appropriation mechanism has been highlighted by Raúl Prebisch. All these phenomena and processes are the expression of social struggles for power whose very existence, and whose incidence on economic processes, can hardly be overlooked. Yet they have not been clearly integrated by the different currents of economic theory in pigeonholing the 'monetary' and 'real' spheres of their respective analyses.

Monetary variables are not 'neutral', nor can they be studied as a category entirely apart from real variables. Examination of the societal factors which determine the generation of monetary income and of the overall price level is essential for an understanding of the functional distribution of real income and, therefore, the corresponding proportion of the distribution surplus. The same may be said of the ways —socially open or closed— of appropriating productivity increments within the dynamic surplus concept that Prebisch suggests.

These propositions, so briefly condensed for reasons of space, can be supplemented by a numerical example which, for the reader's convenience, is included as an annex. Study of it is indispensable, however, to impart greater quantitative precision to the ideas set forth here.

IV

Growth of employment and capital accumulation

To investigate the relation existing between the growth of employment and capital accumulation, we shall start with the Cambridge equation:

$$\frac{E}{K} = \frac{1}{b_e}\left(\frac{da}{a} + \frac{dT}{T}\right)$$

in which the growth rate of output is expressed as the sum of the growth rates of labour productivity and of employment.

In conditions of long-term equilibrium, the rate of inrease of output $(\frac{da}{a} + \frac{dT}{T})$ is equal to the rate of increase of capital $(\frac{dK}{K})$. This equality is the immediate corollary of constancy in the capital/output ratio (Pasinetti, 1978).

Consequently, in the above-mentioned conditions, the growth rate of employment is equal to the growth rate of capital (rate of accumula-

tion) minus the growth rate of labour productivity:

$$\frac{dT}{T} = \frac{dK}{K} - \frac{da}{a} \quad (1)$$

The relevant point to be determined is the nature of the factors influencing the rate of accumulation. We know that in conditions of equilibrium:

$$\frac{dK}{K} = \frac{E}{K} \cdot b_e$$

If we multiply and divide by S we obtain:

$$\boxed{\frac{dK}{K} = b_e \frac{E}{S} \cdot \frac{S}{K}}$$

But total wages (S) can be expressed as the product of average individual wages (s) multiplied by the number of workers employed (T). Similarly, the total surplus (E) can be expressed as the surplus per worker (e) multiplied by the number of workers employed (T):

$$\frac{dK}{K} = b_e \cdot \frac{e \cdot T}{s \cdot T} \frac{sT}{K}$$

Simplifying the above equation we obtain:

$$\boxed{\frac{dK}{K} = b_e \cdot e \cdot \frac{T}{K}}$$

The rate of accumulation, in conditions of long-term equilibrium, is the product of three factors. The first is the savings coefficient of the receivers of the surplus. In a capitalist economy it is strongly influenced by cultural patterns. Weber's reflections on the spirit of capitalism are pertinent here: the austere and enterprising spirit of the Calvinist ethic can be contrasted with the unbridled consumer propensities of a light-minded hedonism. The extreme of austerity would be represented by a situation in which owners worked and allotted themselves a salary for their entrepreneurial activity —without unduly 'blowing it up'—, while saving and investing all the income deriving from ownership. In such a case $b_e = 1$.

The second factor is the surplus per worker (e), which is a typically structural variable, since it is influenced both by the level of the production capacity (or productivity) of human labour (a) and by the average level of real wages (s). *De facto*, $e = a - s$. Accordingly, the surplus per worker is at the same time the result of the technical progress already achieved and of the social relations that determine the ratio between wages and average labour productivity.

The third determinant of the rate of accumulation could be designated the labour/capital ratio which expresses the number of workers that can be employed per unit of capital invested. It is a technico-economic ratio, for it also depends upon the relative prices of equipment. Given the structure of relative prices, the more workers —with a certain average level of productivity— can be employed per unit of purchasing power invested, the higher will be the rate of accumulation. This is so because what gives meaningfulness to capital goods —understood as units of the means of production to which a price is assigned— is their capacity *for employment of workers* and for endowing them with a certain level of productivity. It is in this that accumulation consists, interpreted as an increase in the overall production capacity of the economy.

Replacing in (1) the value of $\frac{dK}{K}$, we get:

$$\frac{dT}{T} = b_e \cdot e \cdot \frac{T}{K} - \frac{da}{a}$$

Given the expression $e = a - s$, we are left with:

$$\boxed{\frac{dT}{T} = b_e (a - s) \frac{T}{K} - \frac{da}{a}}$$

The more rapidly technical progress ($\frac{da}{a}$) is introduced, the higher will have to be the rate of accumulation to sustain a certain requisite growth rate of employment. But the rate of accumulation will depend in its turn upon the cultural, social or power and technologico-economic factors to which we have already alluded.

Thus it becomes evident how deeply the rate of accumulation and, therefore, the growth rate not only of employment but also of output are rooted in the cultural and power factors which determine the societal structure. In the following section we shall discuss this topic on general lines and without the analytical constraints imposed by the present formalization.

V

Accumulation ethic, inequality and dynamics of employment

If personal consumer income distribution is a matter of power and the economic theory of value reflects power relations and processes which are channelled through the market, then economic systems can be classified in much the same way as political systems, according to the nature of the process by which the power in question is generated and distributed.

Directly or indirectly, all economic processes are aimed at satisfying forms of consumption. The power of purchasing consumer goods is individually distributed in different ways. Consumer preferences do not all have the same capacity to guide the resource allocation decisions adopted by the owners of capital. On the basis of this observation the 'political economy of power' could be a 'positive' page of knowledge which has yet to be indited, and which is necessary to support another economic discipline of a normative character and explicitly loaded with value judgments. This discipline, likewise not so far on record, could be termed the 'political economy of democracy'. It should expound not only the conditions for the effective existence of an 'economic democracy', but the ways of using economic power that could guarantee an authentic democracy in the political and social spheres (Di Filippo, 1983).

From this point of view it will be necessary to revert to an old problem: that of the societal forms of appropriation and use of the economic surplus. The recipients of the economic surplus are on the one hand private owners —*holders* of the economic power that is *measured* and *exercised* through the use of capital— and on the other hand the State, holder of the political power that is exercised through the government. In the social use of the surplus there are very wide discretional margins founded on the forms of power on which appropriation of this surplus is based. That part of the surplus which consists of the income deriving from ownership gives its recipients discretional power to consume it or invest it —either directly or through the saving-investment process. This option between consumption and investment of the income in question is essential for determining the process of democratization of capitalist economies. We shall consider it in some detail below, leaving for another occasion the study of ways of utilizing the public surplus that passes into the hands of the government.

If the recipients of income deriving from ownership have a strong propensity to save and invest, that income is re-injected as capital which has a tonic effect on production. This is favourable to the dynamics of economic development and democratizes personal income distribution. If the said propensity is slight, the income concerned is spent on consumption, and this slows down the rate of accumulation and concentrates personal income distribution —that is, makes it unequal.

What is understood by income here is the general purchasing power exercised over the flow of final goods and services that emerges from the sphere of production. Capital is seen as the general purchasing power which is used to give dynamic impetus to the production process. It is a general purchasing power that is utilized to acquire the equipment, the inputs and the potential labour which, dynamically combined, constitute the production capacity of an enterprise.

Like the Janus of mythology, income from ownership has two faces. One of them looks towards final consumer goods. The other, more austere and enterprising, looks towards production equipment, inputs and potential labour. The recipients of income from ownership have the alternative of assuming either of the two countenances and from their choice emerge two extreme scenarios which, in simplified form, could be summarized as follows:

Let us first imagine, as an ideal or pure type, a society of austere and enterprising owners, capable of pursuing their bent for accumulation to the uttermost. A large proportion of income from ownership is translated into demand for

new capital goods and hiring of manpower. This steady and intensive demand for new capital goods is reflected in a high investment/output coefficient and in a rapid rate of creation of new jobs. The introduction of technical progress makes itself felt in an increase in labour productivity. In this case, part of the productivity increments will go to raise real wages, because, given the high rate of accumulation, entrepreneurs compete for labour. Another share of the labour productivity increments goes to augment income from ownership. But our owners —let us remember— are austere and enterprising and their propensity to accumulation continues to amply outweigh their propensity to consumption. Consequently, their income increments are once again reflected in further demand for investment goods and for manpower.[5] In short, the *personal* distribution of consumer income is relatively egalitarian because wages tend to increase *pari passu* with the increase in productivity —or even at a still higher rate— and owners display an extremely frugal and responsible attitude in the sphere of consumption, together with an aggressive investment policy. They regard themselves as the depositories of the production capacity of society and manage it soberly, setting an example of frugality and detachment.

Let us now imagine, likewise as an extreme simplification, a greedier and more ostentatious society, in which owners apply a 'maximizing' code of behaviour in the sphere of consumption. This 'maximization' is referred to in inverted commas because it does not necessarily imply refinement and selectiveness —which are compatible with a frugal attitude— but presupposes an accumulation of expensive consumer items which are relatively quickly replaced by virtue of a rapid obsolescence resulting from intensive development of 'consumer technology'. In short, with the austere productivist ethic of our first scenario is now contrasted a more consumerist ethic on the part of the owners of capital.

A lion's share of income from ownership is translated into demand for new consumer goods. Here, this 'high propensity to consumption on the part of the owner class' is a matter of quantifiable economic fact and of a cultural attitude which implies a specific rationale. As a counterpart, we might also speak of apathy or reluctance *vis-à-vis* investment. This apathy results not only in a low reproductive accumulation/output coefficient, but also —as a foreseeable consequence— in a lower rate of hiring of manpower.

This unequal distribution of personal *consumer* income —which derives from the abovementioned apathy in the sphere of investment— autonomously generates and accentuates consumerist cultural attitudes. The owners of capital, with the aim of preventing slumps in effective demand, have to produce consumer goods with a high unit value in order to tap the purchasing power of the narrow circle of affluent consumers, of which they themselves, in our extreme example, are the members.

In this case, technical changes are basically manifested in two different ways. In the first place, by refining the characteristics and models of consumer goods. Entrepreneurial competition to sell these luxury consumer goods is based not on the lowering of prices but on differentiation of products. The aim is to recoup that large proportion of distributed income which pertains to consumers with a high degree of purchasing power.

The second way in which technical change is manifested in our consumerist scenario is by an increase in the average productivity of labour. As this increase reduces or slows down demand for manpower and is not accompanied by a high saving-and-investment/output coefficient, the rise in average wages does not keep pace with the increase in productivity because there is a standing army of unemployed which exerts a downward pressure on the price of labour. If we apply the generic terms of private surplus to income from ownership, the surplus/wages ratio tends to increase. But the apathy towards investment and the avid consumerism of our owners determines a still greater increase in the per capita purchasing power that they allocate to consumption. Hence the need for yet more rapid diversification and refinement of goods intended for this high-income market.

Thus, the structure of supply and of the relative prices of final consumer goods is adjusted to the composition of demand and the con-

[5] In this consists, I believe, the "reproductive accumulation" process in Prebisch's dynamic conception.

centrated distribution of personal consumer income, and the process becomes more and more incompatible with economic democratization.

Unfortunately, this situation has predominated in peripheral societies, shaping patterns of accumulation that are unavailing against the phenomenon of insufficient dynamisms.

At least in the case of the centres, mass consumption, and its subsequent increasing refinement, came into being as a response to the decline in effective demand, and was reflected in a rise in real wages in all strata of the labour force. This process was in keeping with the degree of development previously attained by production capacity in the societies in question. Only in more recent times has a tendency towards 'stagflation' been observable, which migh be explained as an unsatisfactory composition of global demand (excess of consumption and insufficient investment).

In the case of Latin America, premature imitation of the consumption patterns of the centres helps to reduce the rate of accumulation and to redirect it along undesirable lines. Our imitative capitalism can reproduce such patterns only for what is inevitably a minority, helping to generate what Aníbal Pinto —in a felicitous phrase— has called a "caricature of the affluent society". Neither average levels of labour productivity nor the diversification of the region's production capacity warrant this ostentatious consumption. Hence, therefore, the undesirable compression of the real income of the lower strata and the bias in the use of the capacity to import which derives from the periphery's insertion in the world order.

Unfortunately, as a result of these trends accumulation patterns have been shaped which do nothing to overcome the heterogeneity of Latin American social structures.

Lastly, it should be noted that we have said nothing of the role of the State, in order to avoid over-complicating our 'scenarios' and to point the contrast between two types of rationale in the private sphere. Obviously, a more realistic presentation would entail reintroducing the increasingly significant part played by the State in contemporary capitalist economies. This more complex and at the same time more specific subject will not be tackled on the present occasion.

VI

A final frame of reference

Needless to say, the global approach we have adopted in this study is an altogether inadequate simplification which cannot give a thorough grasp of the subject of development, accumulation and employment.

If we introduce here a breakdown of economic activities by sectors, and distinguish, for example, between secondary and tertiary activities, it will be possible to catch other distinctive overtones which are of decisive importance for a broader consideration of development in its economic and social dimensions. In a historical and structural study of development and of the dynamics of employment, this multisectoral viewpoint is indispensable. In the more purely analytical sphere, it permits the introduction of significant conceptual elements such as, for instance, the input-output models (Leontief) or the classic theory of the formation of relative prices (Sraffa).[6] The great diachronic long-term views to which contributions have been made by writers of the stature of Simon Kuznets or Colin Clark also clearly deviate from the neoclassical marginalist approach.

ECLAC's thinking and that of most economists of the Latin American structuralist school of thought is in tune with the above-mentioned empirical and analytical contributions.

From them it can be deduced that economic development is essentially asymmetrical, as regards the intersectoral dynamics of the product and of employment; that this asymmetry implies

[6] In this line of multisectoral studies, the most recent and outstanding of the attempts at integration on the theoretical plane is Luigi Pasinetti's (1981).

a displacement of the labour force from primary —particularly agricultural— to secondary and tertiary activities; that these trends stem from certain regularities linked with the income-elasticity of demand for different types of final goods and with the way in which technical progress is introduced (Prebisch, 1973). The socio-spatial counterpart of this shift of manpower to non-agricultural activities has been the process of urbanization and metropolization which has accompanied the consolidation of capitalist societies and of the Industrial Revolution as the starting-point of contemporary development styles.

ECLAC's ideas can be better understood within this conceptual frame of reference. One of the messages of the 1949 *Economic Survey*, worked out more fully by Raúl Prebisch (1982), is that the international division of labour proper to the centre-periphery relationship makes for structural disequilibria in the world economy as a whole and in the peripheral economies in particular. With the march of world economic development the introduction of technical progress means that the relative share of production and employment in primary activities declines. Accordingly, the peripheral economies specializing in the production and export of primary products were bound to find themselves in a disadvantageous position of deficit and indebtedness in international trade and of insufficient capacity to generate employment within their own frontiers. The fundamental structural problem was and still is rooted in the asymmetrical distribution of international production capacity.

ECLAC's auguries of propensities to structural disequilibrium in trade and employment have been fully confirmed since the war. In actual fact —with the exception of petroleum in the 1970s— the traded value of manufactures has systematically increased its relative share in world trade and the opposite has happened in the case of primary commodities. On an average, Latin America's development has been dynamic, but it has been based on a protected form of industrialization geared to the domestic market. Its participation in world trade, in contrast, has been significantly reduced. Despite the diversification of its production, Latin America has not succeeded in overcoming either its structural heterogeneity or its tendencies towards insufficient dynamism. It can readily be imagined how much more serious the employment situation would be if the region had kept strictly to its primary-exporter position without pursuing the path of diversification. Even with all its inefficiencies and shortcomings —which must be remedied— Latin American industrialization is still an option for the future of regional development that cannot be waived (Pinto and Kñakal, 1973).

The approach that we adopt in the present study can and must be fitted into the framework of the broad view just outlined, but as part of a more integral conception of the styles that may be assumed by the future regional development. According to the concepts formulated by ECLAC and by some economists who have made outstanding contributions to the forging of its ideas (Pinto, 1976 and 1978), a desirable objective that has been postulated is the achievement of a style of development which is at once autonomous, dynamic and equitable. These three features are not mutually contradictory, but strengthen one another. The study made of the social use of the surplus and the dynamics of accumulation suggests that the greater the share of the global surplus allocated to saving and investment, the greater will be not only the economic dynamism of the system, but also the distributive equity of its development. An equitably dynamized production capacity will make an essential contribution in the long run to the enhancement of Latin America's autonomy in the international concert of nations. In the field of employment in particular, as a necessary result of the attainment of the aforesaid objectives the problem of insufficient dynamism will be resolved.

Annex

THE BASIC MECHANISMS OF APPROPRIATION OF THE SURPLUS

(A numerical illustration)

The object of this section is to exemplify in numerical terms, starting from a stable general equilibrium —or, if preferred, circulating-current— situation, the ways and means of appropriating the fruits of economic development.

We shall analyse here four phases of a dynamic process covering twelve discrete periods of equal length (see table on p. 133).

First phase

The first phase corresponds to a classic stable circulating-current situation. Both the quantity of production and supply and the number of workers employed remain constant. In this numerical example, total wages absorb half the total income distributed. An assumption of crucial importance to the argument is that the income generated is spent in the same period and that the supply of final goods is equivalent to the quantity produced in the preceding period. As we are assuming a circulating current, however, within this first phase the quantity of supply in each period is equal to the quantity produced. The same thing happens with the value of total demand, which is equal to the cost of total supply. In these conditions Say's law, according to which supply creates its own demand, seems to be operative. This would mean that the income paid out by the enterprises would serve to finance demand for the final output generated and supplied against payment of that same income. In this first phase of the numerical example Say's law appears to be substantiated because the model identically reproduces itself. The situation of general equilibrium is further manifested in the fact that average prices are equal to average costs, which means that unit profit is equal to zero. This implies that macroeconomic profit, understood as the difference between the value of total demand and the cost of total supply, is also equal to zero.

In short, although our division into periods implies a dynamic methodology, the first two periods recorded in the first phase of our example typify a stable circulating-current situation, in conditions of general equilibrium and price stability.

Second phase

The second phase extends from the third to the fifth period of our example, inclusive. Here we introduce a modification of the circulating current. We assume that labour productivity begins to increase at a rate of 1% while the level of employment remains constant. Consequently, the quantity produced also begins to grow by 1%.

Here the lag between the quantity produced and the quantity of supply does become meaningful. In the course of the third period —corresponding to this second phase— the increase in labour productivity and in the quantity produced does not yet affect the other economic magnitudes because it does not yet emerge from the sphere of production in the form of effective supply.

In the fourth period, the quantity of supply resulting from the increase in output also begins to grow at a rate of 1%. But since in our example monetary income has remained constant, the same is true of the value of total demand. Consequently, in order to be able to realize this expanded supply, enterprises have to lower their prices at a rate of 1%, which is correlative to the productivity increment. This implies an 'open' —socially generalized— appropriation of the labour productivity increments through a correlative fall in the average overall level of final output prices.

As can be seen, in the fifth period, if productivity were to go on increasing at that same rate prices would continue to fall, *ceteris paribus*, to a correlative extent. This behaviour *appears* to be in complete accordance with Say's law and with the postulates of pure competition. In conditions of pure competition, enterprises, in order to be able to realize their effective supply, augmented by the increase in productivity, will have to compete with one another up to the point at which their prices fall to the new level of average costs. Similarly, Say's law seems to remain valid because, as total monetary income has not

yet been modified, even if supply does not create its own demand, the value of total demand and the cost of total supply are equalized within each period. Thus, although nominal wages per worker remain constant, real wages follow an upward trend at a rate more or less correlative with the increase in productivity and the decline in price levels.

Third phase

As from the beginning of the sixth period, labour productivity continues to grow at a rate of 1%, but we introduce in addition the assumption that the number of workers employed begins to increase at a rate of 2%, whereby necessarily, the growth rate of total output rises to approximately 3%. Monetary wages per worker are assumed to remain constant, so that total wages start to go up at the same rate as total employment, i.e., by 2%.

We are now faced with a fact of some theoretical importance. In the expansionist conditions surplus —income to ownership and the State— and the value of total wages is maintained. The total surplus distributed must therefore grow at the same rate as total wages. In the last analysis, this means that total income will be increasing at a rate of 2%.

Consequently, the value of total demand will also rise by 2%, i.e., at a lower rate than the quantity of production and supply, which expands by 3%.

In our numerical example, the increase in employment and the rise in total wages are new facts. The growth rate of output is now a sum —approximately— of the growth rate of productivity and the growth rate of employment.[a] The real product, which increases at the rate of 3%, is subject to partially closed appropriation, and is equivalent to the algebraic sum of the increase in nominal income (2%) and the fall in the overall price level (−1%).[b]

[a]Assuming continual tiny increments:

$$\frac{dQ}{Q} = \frac{da}{a} + \frac{dT}{T}$$

whence —approximately—, 3% = 1% + 2%.

[b]Assuming continual tiny increments:

$$\frac{dQ}{Q} = \frac{dY}{Y} - \frac{dp}{p}$$

whence —approximately—, 3% = 2% − (−1%).

We are now faced with a fact of some theoretical importance. In the expansionist conditions of output, employment and income, the economic system definitively abandons general equilibrium for the following reasons: i) it is seen that Say's law does not operate under expansionist dynamic conditions; ii) the remunerations of ownership, the State and labour do not use up the whole value of income, and in enterprises a surplus appears which takes the form of a net macroeconomic profit; iii) this macroeconomic profit derives from the fact that the value of total demand exceeds the cost of total supply; iv) completely open appropriation of the fruits of economic development ceases to occur and another form of appropriation which is partially or totally closed begins to take place.

In the example chosen, closed appropriation of 2% of the increase in total output occurs through a rise in income and the remaining 1% is openly appropriated via the fall in prices.

Lastly, it can be seen that given totally closed appropriation and price stability the value of the macroeconomic profit is equal to the value of the increase in the real product. We shall demonstrate this in the fourth phase of our numerical model.

Fourth phase

As from the beginning of the ninth period we assume that the struggle for nominal income breaks out, by virtue of which monetary wages per worker begin to rise at a periodic rate of 1%. Consequently, total wages also begin to rise at an approximate rate of 3%. The recipients of the surplus endeavour to counteract this trend and to increase their own nominal income so that it too may grow at a rate of 3%. A social 'break-even' then takes place and the relation between the distribution surplus and total wages remains unchanged.

Total nominal income is now increasing at the same rate as the quantity produced (3%). If we continue assuming that in each period that income is expended in its entirety, then necessarily prices will remain at a constant level. Much the same thing will happen in the case of unit costs (after the necessary adjustment has taken place in the ninth period in consequence of the changes of rate in the aforesaid magnitudes).

	Workers employed	Quantity of production	Quantity of supply	Monetary income generated	Total wages paid	Ownership and State income	Value of total demand
	(T)	(Q)	(O)	(Y)	(S)	(E)	(D)
1	100	1 000	1 000	10 000	5 000	5 000	10 000
2	100	1 000	1 000	10 000	5 000	5 000	10 000
3	100	1 010.1	1 000	10 000	5 000	5 000	10 000
4	100	1 020.1	1 010.1	10 000	5 000	5 000	10 000
5	100	1 030.3	1 020.1	10 000	5 000	5 000	10 000
6	102	1 061.2	1 030.3	10 200	5 100	5 100	10 200
7	104.04	1 093.03	1 061.2	10 404	5 202	5 202	10 404
8	106.09	1 114.89	1 093.03	10 612.08	5 306.04	5 306.04	10 612.08
9	108.21	1 148.33	1 114.89	10 930.44	5 465.22	5 465.22	10 930.44
10	110.37	1 182.78	1 148.33	11 258.35	5 629.17	5 629.17	11 258.35
11	112.58	1 218.27	1 182.78 1 218.27	11 596.10	5 798.05	5 798.05	11 596.10

Cost of total supply (C)	Macroeconomic profit (G)	Prices per unit of output (p)	Costs per unit of output (c)	Wages per worker (s)	Average productivity per worker (a)	Real wages per worker (s/p)
10 000	—	10	10	50	10	5
10 000	—	10	10	50	10	5
10 000	—	10	10	50	10.1	5
10 000	—	9.90	9.90	50	10.2	5.05
10 000	—	9.80	9.80	50	10.3	5.10
10 000	200	9.90	9.70	50	10.4	5.05
10 200	204	9.80	9.61	50	10.5	5.10
10 404	208.8	9.70	9.51	50	10.5	5.15
10 612.08	318.36	9.80	9.70	50.5	10.6	5.15
10 930.44	327.91	9.80	9.51	51.0	10.7	5.20
11 258.35	337.75	9.80	9.51	51.51	10.8	5.25
11 596.10						

In this fourth phase totally closed appropriation of the productivity increments occurs. However, price stability exists and stable reproduction of the process can go on indefinitely if the growth rate of its variables does not change.

In short, stable dynamic reproduction exists, but stable general equilibrium does not, since: i) supply does not create its own demand; ii) total remunerations do not exhaust the value of income and a permanent surplus appears in enterprises; iii) the value of total demand is permanently higher than the value of total supply, which is compatible with stable prices; iv) appropriation of the fruits of development becomes entirely closed and, in view of the stability of prices, the real value of the macroeconomic profit becomes equal to the value of the increase in the real product which is still in process of formation.

Lastly, it should be observed that these findings are entirely independent of the structure (competitive, monopolistic, oligopolistic, etc.) of the final output markets. Their only assumptions are: i) in a given period demand anticipates supply; and ii) the whole of the income received in each period is used in the formal demand and, reciprocally, the supply on the market in each period is sold out.

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CEPAL REVIEW Nº 24

The international scene and Latin America's external debt

*Luciano Tomassini**

The impact of the present crisis on Latin America and the region's external debt are the result of changes that have occurred in the international system during the last 15 years and of the transformation of the Latin American economies and societies. They are also a consequence of the domestic policies pursued by these countries, but these were in essence a reaction to the new conditions prevailing in the regional and international sphere during this period.

In the author's view, the hierarchical world that arose out of the Second World War, in which international relations revolved around the concept of security, began to crumble at the end of the 1960s owing to a tendency towards the fragmentation of world power and a vigorous process of transnationalization, which interlinked the different national societies in accordance with a wide spread of interests. Moreover, the international economic crisis, whose first symptoms go back to that same period, put an end to the record cycle of expansion that the industrialized countries had enjoyed during the last 20 years and facilitated the rise in oil prices, which generated large surpluses of liquid assets which fostered a permissive attitude in the international financial field. Some developing countries, among them the largest Latin American nations, advanced rapidly towards an intermediate stage of development and integrated themselves more closely into the international economy. Thus they could exploit opportunities and assume risks to a much greater extent than in the past, which explains the great impact of the current crisis on the Latin American countries, more severe than that of the 1930s, when these countries were much more able to detach themselves from the external cycle.

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I

The transformation of the international system

The international system, whose basic features arose out of the Second World War and lasted until the end of the 1960s, underwent from that time onwards a complete transformation. The structure of world power, which during the post-war period remained in a rigid bipolar mode powerfully influenced by the Cold War, began to change significantly with the relative decline of the power of the United States, the rise of tensions within the trilateral system and particularly in the Atlantic Alliance, the internal difficulties of the Soviet bloc and the exhaustion of the model that this represented, the growing degree of development and external projection achieved by some Third World countries, and the trend towards the fragmentation of the international system, which postulates the need to seek formulas to promote collegial action within this system.

According to the "new orthodoxy" school of thought (Hoffman, 1981; IISS) the power of the United States in the world fell sharply during the 1970s, particularly *vis-à-vis* the Soviet Union and the Middle East, which would explain the concern revealed by the fact that in 1980 "42% of United States citizens declared that foreign policy was the most important problem for their country", placing this far ahead of the economy and energy (Yankelovich and Kaagan, 1980).

Paradoxically, the decline in power of the United States coincided with the emergence of a profound malaise in the Soviet world. Despite the fact that Soviet military power had grown so fast that it had reached at least a measure of parity with that of the United States, this growth, from a structural and longer-term point of view, was a sign not of strength but of weakness. The instability of the Soviet presence in the Third World, the invasion of Afghanistan (regarded as a defensive measure by the Soviet Union to safeguard its own frontiers), and the grave challenge of Poland to the survival of the political and social system on which the entire Soviet bloc is based, constitute very serious issues which have not yet been adequately appraised (Bialer, 1981; Bialer and Afferica, 1982-1983; and Hyland, 1982-1983).

To these must be added the persistent dif-

ficulties of the Soviet economy in respect of its food base, the production and distribution of consumer durables, and its urgent need to acquire western technology (Marshall and Goldman, 1982). The Soviet model as an alternative for the construction of other societies, particularly in the Third World, would seem to be in eclipse in face of the frustration of the population of the socialist countries and the growing militarization of these régimes.

The tensions that have arisen within the trilateral system constitute another factor of change. Their most recent indicator is found in the conflicts within the Atlantic Alliance. The unilateral replacement of *détente* by a new version of power politics on the part of the United States has estranged its European allies. It should be borne in mind that *détente* has had positive results for the Europeans, both in economic and political terms, but not for the United States. Furthermore, the globalism of American foreign policy is incompatible with the European conception, according to which *détente* is divisible, depending on the issues and regions involved. The conflict generated around the oil pipeline was an expression of these tensions (Joffe, 1981; Cohen, 1982-1983; Andelman, 1982-1983).

The arrival of the Third World on the international stage, midway through the postwar period, constitutes a new factor of instability and change. Today this group is represented by over 100 countries, half of which attained independence during this period. Many have reached stages of intermediate development and have promoted rapid industrialization processes, integrating themselves more firmly into the international system. There has been the emergence of the non-aligned movement, the Group of 77 and the Organization of Petroleum Exporting Countries (OPEC). The viewpoint of the different developing regions of the world must now be taken into account in the handling of international relations: conflicts of regional origin have come to have increasing impact on the stability of the world in general, a fact which is aggravated by the repeated efforts of the great powers to place these clashes within the framework of the East-West conflict (Bertram, 1981; *Estudios Internacionales*, 1982; Russell, 1984).

The above-mentioned factors have created a phenomenon of diffusion of power, giving rise to a world which is more interdependent but also more fragmented. They have thus posed the need to advance towards collegial management of the international system. This new structure of world power presents the developing countries —and particularly Latin America— with a complex balance of limitations and opportunities.

As a result of these trends, a world dominated by considerations of strategic security and by the confrontation of two superpowers is evolving into another characterized by some degree of *détente* and an atmosphere more propitious for the prosecution of other interests —economic, technological, social, ecological and cultural— in the relations between nations. To the fragmentation of world economic and political power must be added the growing complexity and dispersion of the strategic conflicts. This process has also been hastened by the emergence of world problems —such as energy, the environment, 'stagflation' or the external debt— whose solution is essential for the welfare of ever-increasing sectors of the national societies.

In their turn, these societies are being transformed. The prolonged period of economic growth, social development and strengthening of democracy which the industrial societies lived through during the postwar years steadily increased well-being and promoted the strengthening and diversification of the civil society in those countries. The Nation-States committed themselves to an increasingly wide range of objectives which included (together with national security) economic development, the growth of income, the maintenance of employment, preservation of the environment and protection of cultural identity and the quality of life. These objectives came to have a decisive influence on their external relations. At the same time, as the civil society expands and is articulated into multiple interest groups, these groups aspire to take charge of a growing proportion of the affairs of the community. The transfer of responsibilities from the State to the civil society, and the ensuing proliferation of non-governmental groups in a world in which the discharge of these responsibilities depends increasingly on international factors, frequently compels these groups to seek to satisfy their interests on the external plane (OECD, 1981;

Thurow, 1980; Cardoso, 1982; Flisfisch, 1982).

These trends at world and national level reflect the transition from an international system dominated by concepts of power and security, such as that which in broad outline characterized the postwar period, to another based on interdependence and oriented towards the promotion of maximum national well-being (Cooper, 1968 and 1972; Keohane and Nye, 1972 and 1977; Rosencrance and Stein, 1976; Maghroori and Ramberg (comp.), 1982; and Roseneau, 1980).

The "realistic" view of international relations that predominated during the postwar period was based on several assumptions. The first saw international policy as being centered around the interests of the great powers, with one or other of which the smaller States must be aligned, giving rise to the formation of blocs or spheres of influence within which the leading power would settle conflicts and impose some order, and among which a state of coexistence prevailed, precarious but conforming to certain rules. The second saw the national societies as relatively simple units with regard to their external projection, and acting as a function of a limited number of objectives, generally subordinated to the maintenance of peace and security. The third assumption, deriving from the first two, reduced the international programme to a limited number of issues, in a clear order of importance, among which the issue of security enjoyed unquestionable priority. The fourth assumption was concerned with the homogeneity of the agents acting in the international sphere, represented by the Nation-States, which did not recognize the legitimacy of other agents qualified to act between or within them. It is not surprising that the fifth assumption involved an equally restricted view concerning the resources that one State could employ to influence another, which were conceived as confined to the political and military sphere, and concerning the fields in which these resources might be employed, which were regarded as few, well defined and sufficiently well known.

All these assumptions were called into question by the trends referred to above. One might venture here the hypothesis that, in contrast to the past, international relations are today 1) influenced by an increasing number of power centres; 2) their external action seeks to satisfy a much wider variety of aims than in the past; 3) they develop around a more diversified, complex and less hierarchical programme; 4) they are managed by new and multiple State and private agents who 5) bring into play non-traditional power resources in a variety of settings much more numerous, changing and interwoven than before.

These trends give rise to a transnational system cast in a new mold, in which it is possible to refashion the structure and functioning of numerous "ambits", "plays" or "circuits" operating round the programme, agents and power resources mentioned and linking together the different national societies in various ways according to specific interests. From this angle, one could postulate the rise of transnationalized circuits in the fields of energy, food, industry, technology, finance, strategy, science, ideology, culture and religion. Each of these circuits is highly specific in scope. The conditions of access of the different countries to each of them and their relative position within the circuit do not solely depend on their status in the international hierarchy (whether within the East-West conflict or the North-South relationship) but on their relative position respecting the interests which are in play in each of these circuits. The international structure is becoming more fluid and interdependent but at the same time, paradoxically, more fragmented and indefinite. The crisis of the development style prevailing in the industrialized countries is tending to accentuate this trend. Against this background, the developing countries —especially the Latin American countries that have achieved a higher degree of integration in the international system— have seen their external vulnerability increased, although, at the same time, they have acquired more room for manoeuvre to achieve a complex equilibrium between risks and opportunities (Tomassini, 1984; Mirow and Maurer, 1981).

II

The world economic crisis

The development style prevailing in the postwar period, based on the ideology of growth and modernization and on the world projection of this model through the demonstration effect created by the transnational corporations and the entire institutional apparatus that served to sustain them, was possible thanks to the international structure in force at the time. This structure was characterized by the hegemony of the United States and the predominance of criteria centered on the maintenance of the strategic security of that nation and the other countries with which it had made defensive commitments, in a system of cold war. This made possible the diffusion of a development style which expressed and promoted United States interests and, as time went on, those of its main allies. Along with the modification of this international structure, however, came the failure of the project to consolidate and disseminate this development style, in its basic variables.

Hence since the end of the 1960s the world economy has entered into a state of profound crisis, whose structural —and not only cyclical— nature can no longer be denied. The crisis has had a severe impact on the developing world, and especially on the Latin American countries, which had achieved closer integration into the international economy. This crisis was first manifest in the ecological foundation of economic growth; then it became evident that its nucleus was in the industrial transformation of the advanced societies; and finally, in more recent years, it displayed its full virulence in the financial imbalances produced in the world order, which had their worst effects on the developing countries, especially those of Latin America.

Although it is thought that the crumbling of the postwar development style was basically due to the industrial transformation of the advanced countries, it must not be forgotten that its first symptoms appeared in the imbalances arising at its ecological base. Among these must be mentioned the growth of the world population; the diverse factors limiting greater food production; the uncertainty and the increased costs associated with the supply of energy and other industrial raw materials; the problems posed by the excessive concentration of industrial growth in a few geographical localities; and the danger of pollution of the environment, due, in essence, to the high degree of concentration of the urban population and economic activities.

The first report on these problems published under the auspices of the Rome Club provoked multiple reactions on the theoretical plane, while the decisions adopted by the OPEC in 1973 gave the alarm signal in the world of reality (Meadows and others, 1972; Mishan, 1977; Wilson, 1977; Leontieff, 1977; Freeman and Jahoda, 1978).

Thus it came to be recognized that the tempo and degree of growth concentration in the large industrial centres had taken place at the expense of the environment, the natural resource endowment and the capacity for ecological support of productive activities. It was then that an awareness arose of the physical limits restricting economic growth.

In the final analysis this new awareness was one of the indicators that the advanced societies were reaching the limit in regard to the factors on which their postwar industrial development was based. "The world economic crisis is first and foremost an industrial crisis", is the opening statement of one of the most recent reports that seeks to forecast the future of the world economy from a European standpoint (CEPII, 1983). It is arguable whether the weakening of the industrial impulse observed in recent years in most of the developed countries is leading to a post-industrial society, or to an industrialization of the services sector in which the secondary sector will once again be converted into the engine of economic growth and will guarantee the diffusion of the technological changes on which the progress of those societies will be based. It is arguable, likewise, whether the world economy has embarked upon a stage of slow growth for a prolonged period or whether the rapid incorporation of the technological changes which are now in process will bring about a recovery of the economic dynamism of the past. Consider-

able weight can be assigned to the limitations stemming from the supply of energy and natural resources, or, alternatively, optimism can be felt as to the potential inherent in the recent technological innovations in the field of energy and the production of new materials. Whatever may be the forecasts in this field, there can be no doubt of the magnitude of the transformation occurring in world industry and the importance of the recent technological advances, coupled with the impression that mankind is on the brink of an industrial revolution unequalled since the end of the eighteenth century.

The extraordinary growth of international trade in the postwar years was mainly due to the fact that the expansion of demand for those consumer durables which form the bases for the American style of life and its diffusion throughout the world was met through greater specialization among the industrial countries in accordance with Ricardian principles. Each country thus acquired a dominant position in the market in specific industrial sectors, which favoured the continuous rise in prices. This, together with the reconstruction of Europe and the emergence of Japan as a great industrial power, stimulated competition and changes in the spectrum of specializations already acquired by the different countries. At the same time, the expansion of demand for durable goods that had constituted the basis of the development of the most dynamic industries during the postwar period began to decline at the end of the 1960s, producing a marked contraction and a change in the structure of demand following the saturation of the markets for this type of product. Another factor was the change in public preferences in a growing number of social sectors as a consequence of the radical socio-cultural reforms that are altering the modes of life in industrial societies and spreading attitudes less interested in acquiring more of the same and oriented rather towards values concerned with the quality of life.

These trends are linked with the drop in productivity in the industrial countries; with the fall in investment and the reduced profitability of enterprises; with the appearance of idle capacity in a growing variety of industrial branches; with a slower tempo of technological innovation; with higher operating costs in the productive systems and in the societies themselves through the rise in wages and public expenditure; and, in general, with reduced competitiveness in an increasing number of productive activities.

The process of transnationalization which spread the development style prevailing in the postwar period also facilitated the subsequent changes in market structure and in the pattern of technological innovation, and the reorganization of world production to meet the new requirements. Thus, a new international division of labour has begun to emerge, whose future structure is not yet clear, but which is already causing acute tensions among the developed countries and which might alter the traditional forms of linkage between the developing countries and the world economy.

To cope with this process the developing countries have had to introduce extensive adjustments. These were more painful for those countries which were more closely integrated into the world economy, which were more vulnerable to these changes and which lacked resources to mitigate the adverse effects of the world transition on their economic growth or to finance the transformations demanded. These countries tried to soften the adjustments in different ways through massive external borrowing. This was possible owing to the enormous amount of liquidity that arose in the world economy from the beginning of the 1970s, when, after almost half a century, private financial markets began to reappear as a result of, first, the weakening of the dollar, next, the reactivating policies of the industrialized countries and, last, the surpluses accumulated by OPEC.

III

The transformation of the developing countries

The notable tempo of development observed in an increasing number of developing countries in the last 25 years and their progressive integration into the international economy caused profound changes in the economic, political and social systems of these countries and in their relations with the industrialized countries.

At the beginning of the 1950s no-one placed great hopes in the possibility of promoting the development of the peripheral countries through stimuli deriving from the external markets, nor believed that this process could go hand in hand with their gradual integration into the world economy; instead, a preference was shown for policies of industrialization through import substitution and mechanisms aimed at regulating the international primary commodity markets.

During the early stages of their industrialization, many developing countries —especially in Latin America— sought to substitute imports of manufactures with domestic production. As a result of import substitution an attempt was made to increase the proportion of national consumption that would be covered by local products. Among the primary motives for adopting this strategy were the chronic balance-of-payments crises that affected the developing countries because of their structural situation of external strangulation. The strategy was also a response to the long-term political aims of the national governments. It was hoped that import substitution would reduce expenditure in foreign currency and increase the autonomy of these countries. At the same time, this strategy would open the way for the governing élites to satisfy the claims of social sectors whose bargaining power was increasing as a result of development itself, by applying a policy designed to foment development, income distribution and employment simultaneously.

To the extent that domestic demand could serve as a basis for setting up new industries which one day —and this consideration has now become very important— might be able to compete with the displaced foreign producers, it was possible to justify the protection levels agreed upon, the same arguments being advanced as those once applied to infant industries in the past. To the extent that this last condition was not fulfilled, however, the import-substitution strategy would come up against certain limiting factors: either industry would begin to generate the foreign exchange needed for its later development, or its growth rate would be limited to that made possible by the supply of foreign exchange generated by the primary commodity sector, which in some cases these strategies had relegated to second place. In practice, generally speaking, the only import substitution made was that of consumer goods by capital goods and inputs needed for the functioning and expansion of the new industrial enterprises.

As time went on many countries recognized that the propensity to use foreign exchange without generating it is not inherent in manufacturing activity, and one after another they came to the conclusion that protection should be given less weight and that more importance should be attached to efficiency, competitiveness and export promotion.

From the mid-1970s —and even before in the cases of island States or city-States which had no other option— experiments began to be made, at different speeds and in different ways, and to an obviously exaggerated extent in some Latin American countries, with new strategies based on the liberalization of the domestic market and the opening up of these economies to the exterior.

Although this transition has frequently appeared to be a conflict between rival schools, it is now clearer to us, with the benefit of hindsight, that in practice these stages were not then proposed as alternatives but rather as complementary processes. For many countries of the Third World the import-substitution strategy was the only option feasible at that particular point in time, considering the stage of development they were living through and the existence of an adverse external situation. It frequently served as a base not only for their industrialization but also for the consolidation of their nation-

hood. Moreover, not only was there no awareness at the time of a necessary contradition between the internal and external markets, but the former often served as a springboard to the international market. Further, although it is quite true that there were subsequent changes in the strategies of growth and in the forms of external relationship of the developing countries, it is no less certain that these did not take place overnight, as we have been wisely reminded recently in an important report (ICIDI, 1980, p. 262), which noted that these changes could not be made at a moment's notice, but from the 1960s many developing countries have progressed towards strategies aimed at promoting exports and offsetting the disadvantages arising from the isolation of their national markets, while some countries —including certain Latin American countries with a relatively long history of national independence and some island and city States whose economies were obliged from the outset to depend on external demand— have introduced export-oriented policies and were able to exploit their comparative advantages in world markets. Once industrialization had taken root, not only the labour-intensive industries, such as clothing or leather goods, but also certain moderately capital-intensive industries, such as electronics, iron and steel, and shipbuilding, became highly competitive in international markets.

As a result of these strategies —as the aforesaid report recalls in general terms— the share of manufactures in the total exports of the developing countries (excluding petroleum) rose from 10% in 1955 to 20% ten years later, and to close on 40% in 1975 (ICIDI, 1980, pp. 262 and 174).

This export boom reflects more complex changes in the economies that attained intermediate stages of development, and moreover it was concentrated in a still limited number of countries. This prompts us to refer to the growing differences observed in recent years among the peripheral countries and to the situation of those among them that have achieved intermediate development. The literature on this subject has multiplied in recent years. The first report on the evolution of the international economy prepared by the World Bank in 1978 provides a useful, though controversial, point of departure in dealing with the subject (World Bank, 1978).

The growth of the developing countries has been spectacular in the last 25 years: their per capita income has increased by almost 3% per annum, while their annual growth rate has risen from around 2% in the 1950s to 3.4% in 1960. Although the experience of these countries before 1950 is little known, this rise in growth represents a considerable improvement on historical precedents. Moreover, these results are very favourable when compared with the growth rates of the developed countries during their industrialization period. But the report goes on to confirm that there were notable differences in the results obtained by the different developing countries during the period, noting that the growth rates have in general been lower in the low-income countries of Africa and Asia, where most of the poor of the world live, since they contain half the population of the developing world, and where the per capita income has risen at less than 2% per annum (World Bank, 1978).

We must bear in mind, therefore, the great diversity of the developing countries from the standpoint of the size of their economies, their levels of income, their resource endowment, their economic structure, their forms of organization, their technical capacity and their linkages with the world economy. It is reasonable to distinguish, at least, between: a) the oil-exporting countries, b) the countries at intermediate stages of development, and c) the less developed countries, or those with lower incomes, which constitute what is known as the "Fourth World". Among the low-income countries there are also great differences: the World Bank itself distinguished subsequently between those with a mining economy and the predominantly agricultural nations.

The World Bank report uses per capita income as the basic indicator for distinguishing between these last two categories of countries. Another analysis, in addition to the per capita income level, takes into account the importance of manufactures as a percentage of the total exports, the per capita value of industrial exports, and the share of "complex products" in these exports. The "simple" industrial products are usually considered to include textiles, clothing and footwear, as well as chemical products which

are basically the result of the elementary processing of primary products; the remaining industrial goods are considered "complex".

The fact is that in recent years some countries of Latin America, Asia and southern and eastern Europe have made rapid advances as producers of very competitive manufactures in the international markets. This phenomenon, viewed by some as being equivalent to "the emergence of two or three Japans" in the trade field, is acquiring ever-increasing importance. These newly-industrializing countries, as they are called, are as follows:

NEWLY-INDUSTRIALIZING COUNTRIES[a]

Philippines	Argentina	Spain	Hungary
Hong Kong*	Brazil*	Greece	Poland
India	Mexico*	Israel	Rumania
Iran		Malta	
South Korea*		Portugal*	
Malaysia		Turkey*	
Pakistan		Yugoslavia*	
Singapore*			
Thailand			
Taiwan*			

[a] Those marked with an asterisk are considered countries of recent industrialization by the OECD. The rest appear in a Foreign and Commonwealth Office report (1979).

The common denominator among them is a much higher growth potential than that of the less developed countries and, consequently, greater opportunities —not exclusively concentrated in the rural sector— for raising the living standard of the poor sectors. Another trait is the high rate of growth of their industrial exports in the last 15 years and their ever-increasing access to international credit in the last few years. In these circumstances, their development depends much more on international trade and the world capital markets than that of the poorer countries, and their economies are much more sensitive to the trends occurring in the industrialized countries.

It is not surprising that, to maintain economic growth or mitigate the impact of the international crisis on this process, some of these countries have had great need of external financing and have obtained record access to the international credit markets. It must be recognized, besides, that owing to defects in their accumulation processes and the inequalities inherent in their political systems, this external credit was inefficiently and inequitably used by the public and private sectors of many of these countries, thus aggravating the consequences of their external indebtedness.

IV

The external indebtedness of Latin America

The aforementioned trends of the international system combined to produce the excessive degree of external indebtedness observed in the Latin American countries (ECLA, 1983 and 1984; Iglesias, 1984). Thus, in the last ten years these countries' external debt rose more than tenfold to close on US$ 300 billion, or almost half the external debt of all the developing countries put together. Considering these magnitudes from another angle, it may be noted that whereas in 1970 the Latin American external debt represented slightly less than 12% of the region's gross domestic product, towards the end of 1982 it equalled 30%. At the same time, through the combined effect of a larger volume of debt and the rise in interest rates, the servicing of the debt, which in 1970 represented around 7% of the value of the region's exports, had risen to almost 40% by the end of 1982. Additionally, as most of the new credits obtained by the Latin American countries came from private sources, the maturities contracted were much shorter than those of 10 years before; thus the proportion of short-term external debt was dangerously high compared with what might have been demeded prudent for commercial credit. It must be borne in mind that, whereas at the beginning of the 1970s around 80% of Latin America's ex-

ternal credit came from public sources, at the beginning of the 1980s a similar percentage came from private sources. It must also be remembered that these debts were tied to fluctuating interest rates, which upset any forecasts that might have been made when contracting them, and abruptly raised the servicing cost of the debt.

The fact that there was a simultaneous decline in the flows of direct foreign investment into Latin America reflects the highly unpredictable nature of the world economy at that time as well as the extraordinary fluidity of the international financial markets.

The volume and characteristics of Latin America's external indebtedness are explained by a combination of international and domestic factors whose relative weight is difficult to gauge. On the one hand, the fact that the external indebtedness had the same impact on countries following very different economic policies would tend to underline the importance of external factors in accounting for this phenomenon. On the other hand, the circumstance that Latin America was more affected in its external sector than other developing countries that had achieved a considerable degree of integration in the world economy, such as those of Southeast Asia, would seem to indicate that domestic policies has an important influence on what occurred in Latin America, though it must be recognized that we are talking about countries with very different economic, social and political structures, which consequently differ greatly in their ability to adjust to the external cycle.

There are three salient factors among those that determined the abundance of external resources available during the 1970s. The first was the impact of the two sharp rises in oil prices, and the ensuing accumulation of financial surpluses in the hands of the OPEC countries, which had to be recycled by the private banking system. The second was the fall in investment and the application of anti-inflationary monetary policies in a recessive context, which caused the industrialized countries to play a less dynamic role than in the past in the absorption of these surpluses. The third was the strengthening of the function of the private banks in this process and the growing use of financial circuits such as lending by banking consortia in the Eurocurrency market (which accounts for more than 90% of the flows from the capital markets to the developing countries in the last decade), which led to a relaxation of demands regarding creditworthiness, since these are markets that operate at world level and do not need to make a very careful analysis of isolated transactions; thus they considerably increased their operations and reduced their costs, running risks which have today become dramatically apparent. During this period the banks competed with each other in lending the surpluses entrusted to them, giving a satisfactory credit rating to clients who had not qualified before, among them some of the relatively more advanced developing countries.

At the same time, and as a result of the trends described, the demand for international credit in the Latin American countries rose sharply. Many had to mount huge transformation campaigns in order to adjust to the changing conditions of the world economy, whether to cope with the higher oil prices or to make a more efficient entry into the markets without relaxing their struggle against inflation. During this period many Latin American countries sought to transform their economies by changing the incentives offered by the tariff structures and the financial, taxation and social security systems. These processes induced business firms to resort to credit in order to remain in the market if they had suffered from the changes, or to expand if their competitiveness had increased, with the result that pressures were generated which pushed up domestic interest rates, and created a powerful incentive to borrow from abroad, where the interest rates were more favourable. The increase in public expenditure embarked on by some Latin American countries in order to finance expansion plans based on over-ambitious projects with long lead times, especially in the case of the oil-exporting countries, and in other cases the excessive expenditure of the private sector, coupled with a strong preference for consumption and a decline in investment, led to an unprecedented demand for external credit.

It seemed reasonable for the Latin American countries to base their development strategy on external indebtedness during that period, when credits were granted on very flexible terms, with negative or very low real interest rates and long maturities. Indeed, this strategy mitigated for some time the effects of the international reces-

sion on the Latin American countries, so that during most of the 1970s they were able to grow at a much faster rate than the industrialized countries.

Nevertheless, the advocates of these carefree policies of external borrowing underestimated the risk that the fluctuating interest rates and short maturities might raise the debt-servicing costs beyond the countries' short-term capacity to pay, that the permissiveness hitherto displayed by the inernational banks might cease, and that a period might begin of higher costs and restricted credit.

The fact that during the whole of that time the international financial markets were surprisingly unregulated contributed to the risks. As already noted, the international private banks assumed a dominant role in the recycling of the financial surpluses accumulated during those years, radically reducing the part played by the international financial institutions. Thus, for example, the credit provided by the International Monetary Fund, which in its initial stage amounted to 16% of the value of world trade, represents only 3% today. In the case of the Latin American countries, the amount of the loans authorized by the IDB —as a percentage of their deficit on current account— dropped from an average of 25% during 1965-1970 to 11% during 1975-1980, while the contribution of the World Bank went down from 21% to 12% between the two periods. The diminished role of the public agencies in Latin America's external credit had serious consequences, since the international private banks showed signs of marked instability in the face of the crisis and a lack of long-term vision, reducing their credits and taking advantage of the negotiations facing the debtor countries to shorten the maturities and increase the costs of the debt in terms of interest and commissions, precisely when these countries were in difficulties and despite the fact that these same renegotiations were reducing their own risks.

This brings us to a final reflection, directly connected with the purpose of this paper, which is to show the linkage between Latin America's external indebtedness and the general trends of international policy and economy. It concerns the responsibility that the world community should assume in the face of this problem. Hitherto, the search for formulas to deal with the crisis has been almost entirely in the hands of the creditors, with little intervention from national monetary authorities and international financial agencies, and with the virtual exclusion of other sectors, whether economic or political. Referring to the interests at stake in the crisis, Donald Regan, Secretary of the Treasury of the United States, said that it was legitimate for American citizens to wonder why they and their Government should worry about the problem of the international debt. Why should they worry because some foreign borrowers found themselves deprived of bank loans or because private banks lost their money? No-one forced them to ask for loans and they should accept the consequences of their decisions, as in any other business. If the United States Government had no other aim than to give money to the borrowers and to their creditors, it would be difficult to justify the use of United States funds in efforts to solve the debt crisis, especially at a time of readjustments in domestic expenditure. But of course the problem and its solution had other aspects, too. First, a further sharp and large-scale contraction in the imports of the less developed countries would be very harmful to the United States economy. Second, if the situation were not handled properly the debtors' difficulties in the less developed countries would become so onerous that they would be tempted to adopt desperate measures to find a way out (statement to the Banking Committee of the United States House of Representatives on 7 April 1983).

The present situation is due not only to the policies applied by the debtor countries but also to the far from rational behaviour of the private credit sources, aggravated by the lack of regulations of the international financial market. Hence the need to recognize that dealing with the crisis is the responsibility of the entire international community.

It is essential that debt servicing in the future should be subject to the development possibilities of the debtor countries and the demands of world economic reactivation, in view of which the renegotiation of existing credits or the granting of new international loans should be subject to new conditions which comply with these objectives. Furthermore, it is necessary that there should be no sudden variations in the willingness of the private bankers to maintain a specific flow

of credit to their clients, and hence they should work in closer contact with the actual debtors, with the monetary authorities of their respective countries, and with the international financial institutions. Finally, these agencies must be given the power to contribute effectively to maintaining the necessary balance between international credit and the normal functioning of the world economy, without neglecting the part that the developing countries are called upon to play in it.

In this context, it is essential to reaffirm the link between credit and trade, which has been greatly weakened by the deterioration in the terms of trade of Latin America's export products during recent years, by the intensity of protectionism and the forms it has adopted in the developed countries, and by the general decay of the rules that governed the international commercial system. Helmut Schmidt, former Chancellor of the Federal Republic of Germany, used to say on this subject: "Credit creates trade, trade secures credit. Major developing countries' balance-of-payments problems cannot be cured if we shut our markets to them. In many respects the developing countries are now in a position similar to that of the German Reich in the 1920s: Germany could not meet its 'reparation' payments because the allies were not prepared to tolerate German trade surpluses. So Germany could not meet its debt repayments and lost its creditworthiness." (*The Economist*, 26 February - 4 March 1983, p. 29).

It is to be hoped that the international community, in the present crisis, will be more discerning in its treatment of Latin America than it was in the case of Germany after the First World War, and that this will prevent the outbreak of violence which, in new forms, would be the inevitable result of further pressure on the debtors.

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CEPAL REVIEW N° 24

The international financial crisis: diagnoses and prescriptions

*Martine Guerguil**

The public in general, and often even economists themselves, feel confused by the wide variety of proposals for solving the international crisis that have been put forward in academic and political circles. The particular interest of this article is that it gives an ordered account of the most important proposals and evaluates their positive and negative aspects.

These proposals fall into two broad categories. On the one hand, there are those that assume that the payment difficulties of the debtor countries are an expression of a conjunctural and transitory situation which will terminate with the recovery of the world economy. In these circumstances, it is claimed, the proper course is to amplify and improve existing mechanisms that will assist the debtor countries in the short-term servicing of their external debt, as for example by increasing the resources of international financing sources, improving the temporary relief mechanisms and reorienting the conditionality criterion of the IMF.

On the other hand, there are those who sustain that the difficulties in question stem from the serious mismanagement of international credit and that a system should be devised that would avoid a repetition of the errors of the past, restructure the debt overhang and redistribute more equitably the costs of readjustment between the parties involved. These proposals suggest various forms of partial or total conversion of the outstanding debt, through market mechanisms, through multilateral public action, or through unilateral measures.

The author concludes that the creditor banks and countries are obtaining handsome benefits from the existing situation, so that they cannot be expected to want to change it; hence any attempt to establish new bases for the problem of external indebtedness will largely depend on the bargaining power that can be built up and applied by the debtor countries.

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Introduction

Since the international financial crisis broke out in mid-1982 it has acquired extraordinary dimensions. When it erupted in Mexico in August of that year it created such alarm in banking circles that its negative effects spread like wildfire to the rest of the market, causing a sudden deterioration in the terms of credit. Thus, the debt-servicing capacity of the other borrowers, already weakened by the difficulties of the world economy, was still further reduced. In barely a year there were over 20 non-industrial countries interested in renegotiating their external debt, which accounted altogether for more than half the portfolio of credits granted by the banks to that group of countries (ECLAC, 1984a).

Although its magnitude gave rise to concern, the renegotiation process was conducted at the outset in a very slow and disordered manner. The problems were dealt with country by country, case by case. When we look at them as a whole, however, we perceive that quite a uniform scheme was applied throughout the world, affecting both the procedures used and their results. This scheme prevented the total collapse of the financial system: an outcome which had been feared when the Mexican crisis broke. Even so, the process of renegotiation has been long and painful for all the parties involved, and no stable and final solution to the problem of external indebtedness has been reached. On the contrary, the situation is one of almost permanent uncertainty, which has considerably hampered the management of the national economies, and even of the international financial system.

This climate of indecision, with its widespread repercussions, was bound to lead to a search for other solutions. Hence, since the onset of the crisis there has been a proliferation of proposals of the most varied nature. This article does not seek to add a further element to such a heterogeneous collection, but merely to review the most outstanding proposals, arranging and assessing them so as to present a clearer idea of the state of research in this field.

The courses suggested for solving the debt crisis are in general confined to two approaches according to the assesment of the current renegotiation processes. One approach considers that the analytical base of these processes is adequate and that it is only a matter of improving it. The various elements proposed for this pur-

pose are discussed in the first part of this study. The other approach calls for a solution of a different kind, namely, the conversion of part or all of the outstanding debt, and is described in the second part of the paper. There follows an analysis of three groups of propositions for putting this concept into practice which differ according to the theoretical framework employed and the resulting importance attributed to market mechanisms for effecting this conversion.[1]

I

The enlargement and improvement of existing mechanisms

1. *The theoretical base*

This approach is based on the assumption that the problem is one of short-term liquidity, that is, a temporary conjunctural crisis caused by factors beyond the control of the agents involved. The debtors have suffered the consequences of a variety of contingent elements: the fall in the prices of their export products; the reduction in the volume of their external sales owing to the economic recession in the central countries; the sudden rise in international interest rates, and the deep depression of the world financial markets. Since these elements are held to be the basic cause of the present crisis, it is claimed that this will automatically be resolved when the world economy recovers, since financial equilibrium will then be restored within a few years and normal international credit operations resumed.[2] In other words, it is assumed that, on recovering their capacity to service the external debt, the developing countries will regain their image of creditworthiness and their former access to the international capital markets. This is the criterion of some economists and, among institutions, of the International Monetary Fund and the World Bank.

According to this criterion, the crisis demands temporary domestic adjustment processes on the part of the debtor countries, but the success of these processes depends, in the first place, on the macroeconomic policies of the industrialized countries, which must seek to attain a firm, lasting and non-inflationary recovery. In the second place, it is essential that the debtor countries' access to the world market should not be restricted, so that they can increase their exports and service their external debt. Thus a fundamental aspect of international cooperation is to keep a watch on protectionism —a practice characteristic of recessive periods which has been applied with singular force in the industrialized countries in recent years— and to seek to eliminate measures of this type which prevent the recovery from being transmitted to the developing countries.

Up to the present, however, the adjustment has been slow and even in the best of cases will require, according to the studies available, at least two or three years. In fact, the world economic recovery does not appear to be pointing in the direction of the high levels of growth typical of a period following a recession. Nor can it be guaranteed that in the near future there will be an upturn in trade, a marked improvement in the terms of trade, or a reduction in interest rates.[3]

[1]Conversion means the modification of the securities retained by the creditors. The operation can take very different forms as regards magnitude (conversion of the whole or only part of the debt) and impact (changes which affect the legal form of the security, the value of the principal, the servicing conditions, etc.).

[2]In several statistical studies it is contended that, among the short-term variables, the reactivation of the economy in the central countries is the most powerful element for overcoming the present crisis more rapidly (*World Financial Markets*, 1982 and Cline, 1983).

[3]The projections made by the OECD estimates an annual growth rate of between 2% and 3% for the industrialized countries in the biennium 1984-1985. Their non-petroleum imports are likely to rise by 3% per year, while the developing countries are expected to increase their total external sales by between 5% and 6% annually. In the financial field, stability of interest rates is predicted, with a nominal value of 9% and a real value of 4% (OECD, 1983).

Now, such a slow recovery implies a continued sharp external constraint on the developing countries. In these circumstances a series of measures needs to be defined which will enable the debtor countries to obtain temporary relief for their short-term problems of liquidity. Since the financial crisis broke out in 1982 procedures have been followed in line with the plan described above; what is required in the future, according to the supporters of this position, is a review of the measures applied to date and an assessment of their shortcomings, followed by an attempt to remedy these by improving the mechanisms in force.

2. *The mechanisms and processes in force*

According to the analysis outlined above, the crisis is not one of world stature, since it is confined to a particular group of borrowers. These countries differ greatly as to the factors that have contributed to their problems and the situation and prospects of their external finances (economic structure, relative size of debt, present and future burden of service payments). In view of these basic differences between them it is maintained that there are no general solutions to the problems of the debt, and so up to now the individual cases have been dealt with separately and with relative informality.

Nevertheless, as already mentioned, the method used has come to have similar characteristics and results for the different countries. The first resource employed to meet a payments crisis was the renegotiation of the bank debt. Given the magnitude of the problem, this element was not enough to prevent the generation of serious tensions, and the countries therefore had to resort concurrently to the so-called international financial safety net, in order to obtain temporary help until broader measures could come into effect and the positive results of the recovery could be passed on.

a) *Renegotiation with the banks*[4]

Although the banks have insisted that debt rescheduling must be carried out case by case, the practical result of the negotiations held in the first two years of this crisis has been a great similarity in the terms granted to the different borrowers.

The main likeness occurs in the time horizon: the rescheduling operations covered only the most pressing maturities. In other words, even in the best of cases the payments rescheduled have only been those falling due in the biennium following the start of the negotiations. Moreover, for all debtors the traditional system was maintained of rescheduling only amortization and not interest payments. The banks refuse to reschedule the latter, partly for accounting reasons, since if they do so they will have to alter their accounts and write off the corresponding loans.

Even so, the debtors have not been able to keep up their debt servicing properly in face of the inordinate increase in their interest obligations on the present onerous terms. The banks have thus been forced to seek another solution, which has generally been that of granting new loans to refinance part of the interest payments.

The final important feature of the renegotiation agreements has been the deterioration in the terms of credit.[5] Since they are very much the same for every country, the new terms do not take into account each debtor's real capacity to pay, but merely reflect the changes in the banks' assessment of a crisis and the use of their great bargaining power. The tendency to make adjustments in line with the perception of the banking system rather than in keeping with the real situation of the debtor has been characteristic of almost all the renegotiation processes.

b) *The international financial safety net*

From the beginning of the crisis, when Mexico, the second most important client of the banks in the Third World, announced that it could not fulfil its external commitments, it was evident that renegotiation of the bank debt would not

[4]A more fully documented and precise analysis of these processes is given in ECLAC (1984a).

[5]For the Latin American region the terms on which new credits were granted in 1982 implied a deterioration in the negotiated cost of credit ranging between 30% and 18%, according to country, in relation to the conditions prevailing in 1980-1981. The financing cost in itself, however, had increased between 10% and 30% (ECLAC, 1984a).

suffice to prevent the collapse of the financial system. Hence it was necessary to have recourse to the safety net established after the war in order to avoid excessive cyclical fluctuations of the economy.

This safety net functions on three levels. It is based on the institutions created through the Bretton Woods Agreement, and especially the IMF. Applying its three credit mechanisms,[6] this institution granted the Latin American region as a whole US$ 6.5 billion in 1982, and over US$ 10 billion the following year. Of this total, more than two-thirds is subject to the Fund's conditionality system, which means that the disbursements are gradual and are made subject to the fulfilment of the economic goals established for the adjustment. This principle of conditionality, a special feature of the Fund, increases the influence of the institution: its direct action takes the form of a volume of credit which is really quite limited in relation to the total financial needs. As the satisfactory execution of the adjustment programmes calls for a continuous stream of bank finance on reasonable terms, a basic aspect of the activity of the Fund is to try to ensure that the projected increase of credit takes place.

In practice, the Fund has succeeded in this latter function, since it has played the role of a catalyst in the processes of renegotiation.[7] Indeed, with only two exceptions (Nicaragua and Cuba), the signing by the debtor of a standby agreement with the IMF has been an essential condition for the banks to agree to reschedule the outstanding debt. In turn, the IMF has been concerned to see that the terms of the banks' new contracts are in line with its own standby agreements. In general there has been an informal agreement between the big banks and the IMF that the former should grant commercial credit to refinance interest payments in amounts equivalent to around 7% of the debtor's net commitments.

Notwithstanding the foregoing, the procedures for arriving at this type of agreement are always prolonged and in the meantime the problems become increasingly acute. In this situation other institutions form a second line of defence in providing bridging loans as a provisional source of credit until the situation can be stabilized. The Bank for International Settlements, The General Arrangements to Borrow, the Commodity Credit Corporation of the United States and the US Treasury itself have contributed, with this type of credit, to the alleviation of recent financial tensions.

Finally, the central banks of the creditor countries have acted implicitly as lenders of last resort, providing at the international level the same speedy and effective assistance that the banks receive in the domestic markets when they face a crisis of public confidence. For this purpose, since the great crisis of the 1930s, there has been an unofficial but regular exchange of information between central banks and *ad hoc* co-operation, with some co-ordination of action. This policy was more formally pursued as a result of the bank crises of 1974, when the governors of the central banks of the Group of Ten issued a joint communiqué announcing that "means are available for the provision of temporary liquidity and will be used if and when necessary" (Spero, 1980). This commitment, although explicit, has been left undefined so as to avoid an excess of confidence on the part of the banks and consequent lack of caution. Moreover, by definition, this aid must be adapted to the particular conditions and needs of each case, so that it would not be appropriate to incorporate it into an institutionalized and predetermined agreement.

The success achieved in dealing with the Mexican crisis of 1982 bolstered up the idea that this safety net had the efficiency and speed of action needed to cope with unforeseen contingencies. However, the possibility that intolerable tensions will reappear in the near future has

[6]The International Monetary Fund offers three lines of credit to the countries affected by financial problems. The first —the compensatory financing facility— provides immediate liquidity to the countries which have suffered a deterioration in their balance of payments on account of reductions in their main export prices. The second, standby credit, is an agreement by which the IMF supports for a period of one to two years an economic adjustment programme defined jointly by the institution and the country. Lastly, the agreements under the extended Fund facility enable the Fund to assist for a period of three years those countries which need to make structural adjustments in order to achieve a balance of payments which will be viable in the medium term.

[7]The present crisis, which caused payment difficulties to become widespread in Latin America, transformed the role of the Fund from that of a passive catalyst into that of an active promoter of banking funds (ECLAC, 1984b).

motivated some proposals for reinforcing these elements, both in respect of their resources and their mechanisms.

3. *Proposals for expanding and improving existing mechanisms*

a) *Resources*

During the Mexican crisis the resources availabe for granting emergency credit were increased. At the same time the range of sources was extended, since for the first time the Bank for International Settlements granted bridging loans to several countries of the region amounting to US$ 3 850 million. However, these sources of finance are kept as a last resource, so that an appreciable increase in their funds is not envisaged.

On the other hand, the crisis made it patently obvious that the resources of the traditional institutions were inadequate. As the restrictive monetary policies adopted by the central countries since 1979 have had repercussions on the international financing agencies, these have not had new resources with which to combat the subsequent recession, in contrast to what happened in 1974. To remedy this situation certain measures have already been taken. In particular the developing countries have been given access to the General Arrangements to Borrow (GAB), the volume of which was increased from US$ 6.5 billion to US$ 19 billion, while the IMF quotas were raised by close on 50%.

Thus, over a period of three years the resources available were increased by US$ 30 billion, that is, by US$ 10 billion per year. But this is not equivalent to even one-third of the fall in the flow of commercial loans to the Third World, which dropped from US$ 50 billion to US$ 15 billion between 1981 and 1982 (Avramovic, 1983). In the following year, bank credit to the countries which had standby agreements with the IMF increased at most by 5% to 7%, thus refinancing only half of the interest payments.[8]

Hence there remained a substantial difference between the resources available and credit needs.

The solution most commonly put forward is to seek ways of increasing the resources of the IMF. To avoid the lengthy institutional formalities and consequent obstacles of a political nature, another course has also been proposed, which is to enlarge the operative capacity of the financing agencies. An initial possibility would be for them to obtain private resources. An idea particularly canvassed has been to authorize the International Monetary Fund to procure resources in the international markets. Some authors (Bolin and del Canto, 1983) propose that this task should be entrusted to an Export Development Fund expressly created for this purpose. Greater flexibility in the credit policies pursued by the multilateral institutions has also been called for. Special emphasis has been laid on an increase in their current very low gearing ratio (ratio of paid-in capital to outstanding borrowings),[9] in order to extend the range of their credit operations.

Finally, in a wider context, it has been proposed that the total liquidity of the system should be raised by an additional allocation of Special Drawing Rights, destined mainly for the developing countries that are in serious financial difficulties (Avramovic, 1983 and Massad, 1983). The aim of this is to earmark resources to grant them preferential long-term loans, thus redistributing the burden of debt servicing and supporting the expansion of international trade and economic reactivation.

[8]The interest payments of Latin America have risen enormously, growing fourfold between 1977 and 1982 and standing at over US$ 30 billion in 1983 (35% of exports). To effect these payments the region has had to make a tremendous effort of adjustment; it more than trebled its trade surplus in the course of one year (from US$ 9.7 billion to US$ 31.2 billion between 1982 and 1983). Nevertheless, this adjustment was fundamentally faulty in that it resulted from a radical reduction (29%) in imports and not from an increase in exports (which went down by 1.3% in 1983). Moreover, the value of the net interest payments exceeded the net credit received by the Latin American countries. Hence the slight increase in credit granted by the banks, in so far as it represented a new contract subject to standby agreements with the IMF, besides being concentrated in a few countries (especially Brazil and Mexico), barely sufficed to cover the increased servicing payments resulting from the worsening of the terms of indebtedness. The future outlook is equally unpromising, since the LIBOR rate went up again, from 10.25% in December 1983 to 12.44% in mid-May 1984. According to ECLAC estimates, the maintenance of this rate throughout the year will mean for Latin America an increase of close on US$ 5 billion in interest payments.

[9]The International Monetary Fund and the World Bank have been operating with one-to-one ratio.

b) *The mechanisms for temporary relief*

At the same time, apart from the enlargement of available resources, it has been proposed to extend and to some extent institutionalize the relief mechanisms, which have been characterized up to now by their *ad hoc* nature and confused application. Since they are temporary mechanisms, they are designed to alleviate interest payments, since the restructuring of amortization commitments is carried out with a longer-term perspective.

In general, the relief of debtors can be effected in two direct ways: by lowering the effective interest rate, or by granting the countries sufficient resources for them to fulfil their payment obligations without having to transfer their own resources abroad. A third more complex way would be to create a mechanism which would serve as a buffer by absorbing the cost of short-run fluctuations in interest rates.

i) *Relief by reduction of the interest rate.* Two economists and bankers have opted for this method. Robert V. Roosa (IMF, 1983) suggests applying some of the procedures used in similar crises at the domestic level.[10] This implies more intervention by the monetary authorities, who will need to take part in defining the restructuring terms and seeking new finance. In particular, the IMF will need to play a more decisive role and intervene directly in the definition of the credit terms, so as to achieve a rate close to LIBOR. For his part, P.P. Kuczynski (1983) proposes a contingency plan for the banks: i.e., to reduce the interest rate for two years, maintaining a spread of approximately one point over the interbank rate. As it seems most unlikely that the banks would willingly accept this reduction in their profits, the plan would only be adopted in emergencies, when the creditor governments themselves would exert strong pressure on the banking system. In this way some relief would be obtained for the debtor country without prejudicing the granting of bank credit in the future (which would not be compatible with the adoption of a lower rate than that suggested).

ii) *Relief through an institutional mechanism or service for granting compensatory credit.* Mexico proposed another solution: an increase in the resources available for meeting service payments (see Government of Mexico, 1983). Its proposal is to set up an institutional mechanism destined to relieve interest payments during a period of transition. The proposal assumes that the existing deficit is of a special type, caused by exogenous factors and not by the excessive expansion of global demand which usually leads to payments problems in the developing world. Thus it calls for different treatment from that implicitly linked with the agreements with the IMF.

In support of this thesis, Mexico underlines the similarity with the circumstances which in 1974 gave rise to the creation of the compensatory financing facility of the IMF: an abrupt turnaround in external conditions, reversible after a period of years, and largely attributable to circumstances beyond the country's control. Hence the proposal is to create a special facility for financing balance-of-payments deficits caused by rises in international interest rates.

This facility would enable compensatory loans to be granted to debtor countries during those years in which the interest rates exceed their historical levels (i.e., 2% to 3% in real terms). These credits, like those of the first compensatory facility, would be granted for longer periods than those applied in current agreements. Moreover, they would not be subject to the traditional conditionality of the Fund, since the study proposed is only one condition, namely, some control over the volume of future credits in order to avoid undue expansion of the country's external debt.

iii) *Relief through a buffer mechanism for fluctuations in interest rates.* The basic principle of the mechanism proposed for mitigating the effect of excessive fluctuations in interest rates and giving temporary relief to the debtor countries when these rates become untenable is the creation of a system of compensation between periods when the prevailing commercial rate rises above its historical level and those when it falls below it.

[10] In general, when renegotiating the debt of private firms the banks charge a lower interest rate than that of the market during the adjustment period. In contrast, in the case of sovereign debtors the banks raise the effective rate imposed on the country on the ground that they have to face a greater risk. This argument, however, is not theoretically valid, for the renegotiation diminishes the risk for the creditors, since if a country does not renegotiate its debt it will simply be unable to service it (Devlin, 1983 and Kuczynski, 1983).

W. Bolin and J. del Canto (1983) have mentioned this proposal as part of a long-term reform of the international credit system, while C. Massad and R. Zahler adopt it as the pivot of their proposed solution for the present crisis (Massad and Zahler, 1984). These economists propose that the debt should be made subject to a reference interest rate, equal to the real long-term average, plus a normal spread for the banks. According to their estimates, this rate would be 2% or 2.5% in real terms. The debtors would pay the interest to their Central Bank in local currency at the current commercial rates. The Central Bank would then pay the creditors up to a maximum equal to the reference rate. It would accumulate the difference in excess of the reference rate when the market rate was above it. On the other hand, it would draw on the accumulated funds when the market rate was below the reference rate, until the funds were exhausted.

In contrast with the foregoing proposal, this plan does not include intervention by the industrialized countries, even through the agency of a multilateral organization. The banking system could avoid some accounting problems, since the funds accumulated by the central banks under this mechanism would be shown as assets in the creditors' balances. Nonetheless, according to the authors themselves, the proposal tacitly assumes that bank supervisors will turn a blind eye to these procedures and that the monetary authorities will take action when problems of liquidity arise.

c) *Reorientation of the IMF conditionality principle*

In the same order of ideas, but on a lesser scale, there has also been a proposal to modify the conditionality applied by the IMF in its stand-by credits, and to redefine the resulting adjustment programmes.[11]

[11]The Fund favours a strategy of automatic restoration of balance-of-payments equilibrium. In order to increase the supply of foreign exchange the aim is to achieve a large trade surplus by restricting domestic demand and encouraging output of tradeable goods. The measures proposed by the Fund for this purpose are highly standardized and rigid, giving preference to indirect instruments of a monetary type. Thus, a ceiling is placed on the volume of domestic credit and on the quantity of money in circulation, while at the same time the liberalization of trade operations and a rapid reduction of the public deficit are demanded (Ground, 1984).

To be sure, none of the authors question the need for an adjustment, and hence for internal economic sacrifices. At present, however, since almost all the countries are renegotiating with the Fund due to their failure to meet their targets, doubts have been raised as to whether the IMF strategy is not too severe for the borrower countries, creating an economic deflation and an excessive contraction of domestic demand, with the ensuing social and political unrest. The adjustment period may be too short in view of the magnitude of the initial imbalances and the difficult world economic situation. It has even been argued that these policies might be aggravating the international recession, since the Fund itself estimates that at least three-quarters of the improvement in the trade balance attained by the Third World in 1983 was due to the contraction of its imports and not to the expansion of its external sales (IMF, 1984). Further, the IMF prescription has been applied in a mechanical manner, with very similar monetary and fiscal goals, without really taking into account the practical situation of each debtor.

Although its theoretical basis may seem valid for use in the case of a single country, its uniform and simultaneous application is open to question, especially when the world economy is in recession.

In view of the frequent failures to comply, and the intolerable political tensions created in the debtor countries, the IMF has shown signs of wishing to change its position. In particular, there has been some increase in credit amounts and periods, with more flexible target arrangements. This change, however, has taken place very slowly, step by step, and the result has been fragmentary and weak.

Many economists insist that the terms should be much more liberal and gradual, with the application of new instruments designed to favour investment and economic growth.

4. *Comments*

The plan for improving the financial safety net may be criticized from various angles. In the first place, there are serious obstacles to its implementation —mainly of a political nature— which concern the procurement of the necessary resources and the orderly functioning of the

plan. Moreover, it might be argued that the mechanism in question is excessively automatic, to say nothing of the analytical deficiencies of the theoretical frame that governs it, which call into question the plan's ability to solve the actual crisis.

a) *The unfavourable setting for its execution*

The approach we have been analysing has evolved in a highly unpropitious external setting and has received practically no support either from governments, the banks or public opinion in general. The tenacious resistance of the United States Congress to increased national support for the IMF is very revealing on this point. Although the Mexican crisis in 1982 helped to modify the position of the United States Government, inducing it to support the action of the multinational agencies, this change of policy was not endorsed by public opinion as a whole, which is reluctant to provide any official aid in this field (Brimelow, 1983).

Another obstacle is the attitude of the banking sector, which in some degree contributes to this lack of political support. The great number of banks involved impairs co-ordination among creditors, and this is aggravated by the frequently capricious behaviour of the smaller banks. Hence negotiations are prolonged to no purpose, representing a high opportunity cost for the debtor.

Up to the present, however, there have been no declarations of moratoria, which would bring about the collapse of the financial system. But this circumstance, fortunate as it may seem at first sight, is very negative in its effects, since it has made the banks underrate the risk of a profound crisis in comparison with their appraisal of the previous year. As the feeling of urgency has faded, the incentives for taking vigorous measures have lost their force, and this situation not only contributes to the present scarcity of resources but also discourages the creation of new mechanisms. Thus, no new approach to the subject can be expected until the system is threatened with another crisis (Devlin, 1984).

b) *Problems of excessive automaticity*

If reasonable efficiency is to be achieved, the system should avoid excessive automaticity. Although the current conditionality of the IMF is certainly too rigorous, and the rise in bank costs after a renegotiation is clearly exaggerated, it would be a mistake to over-relax the principle of conditionality. Indeed, no emergency aid could come to be automatic, since this would debilitate the functioning of the whole system. This was the main objection to the Mexican proposal. Although in principle an institutionalized compensatory mechanism might prevent serious crises and thereby stabilize the financial system, its application in too automatic a manner could have counterproductive effects: debtors and creditors would be encouraged to pursue incautious policies, knowing they could fall back on a system which would allow the deferment or transfer of the final cost. Moreover, if the conditions of official aid were liberalized, it would lose its character of last resort, and its capacity —particularly that of the IMF— to exert official pressure on the banking sector and obtain its collaboration would be diminished. It seems necessary, then, to tie this type of credit to a number of rigorous conditions; although those currently employed are by no means the most appropriate, the reorientation (or redefinition) of conditionality must not be confused with its suppression.

c) *Deficiencies of the analytical framework*

The criticisms of this approach are not only of a practical nature; there are also analytical arguments that show up the weakness and inadequacy of the measures proposed for reaching a real solution of the problems of indebtedness.

Recourse to a financial safety net as a way out of the existing crisis assumes that the recession is contingent, essentially caused by exogenous factors, i.e., the fall in export revenues and the rise in interest rates. This criterion takes no account of longer-term problems; to be more exact, it does not consider the exceptional dimensions of the crisis, its unusual aspects, or its possible future repercussions. A strategy has been selected with the sole aim of counteracting the difficulties that are currently affecting the world financial system. Its hopes for the future are based on a sustained recovery and less protectionism on the part of the OECD countries, on the adoption of lower interest rates, and on strict but efficient adjustment programmes in the debtor countries.

This basic hypothesis as to the future trend of the world economy may be criticized as over-

optimistic, or even unrealistic. Indeed, while some economists contend that real interest rates will probably remain for a long time above historical levels, others see in the present crisis the beginning of a long period of stagnation. Hence it would not be reasonable to hope for a dynamic recovery even in the medium term (Sunkel, 1984). From this viewpoint, the criterion on which the safety net is founded would appear to be faulty from its very base since the essential condition for its efficient functioning is precisely the reactivation of the world economy.

Even without such a pessimistic projection of world economic trends, the safety net may seem deficient because it does not tackle the problem with suitable instruments. The measures proposed, although they include some degree of institutionality, remain for various reasons fragmentary and imprecise. It is still proposed to settle the problems case by case, country by country, without acknowledging the global dimension of the present crisis. Apart from ignoring the real magnitude of the crisis, the lack of definition and co-ordination leads to the application of market criteria (such as the concept of short-leash financing)[12] and the apparent protection of the value of bank assets, when in fact the market has dwindled to nothing and operations are now the result of isolated negotiations (Devlin, 1983; Langoni, 1983). Even though these measures prevent the declaration of a moratorium, with the consequent disarray of the international financial system, they do not give rise to viable and definitive solutions.

The financial safety net has another defect, this time in connection with the payment term allowed. One of the lessons learnt from recent experience is that it will take much longer to settle the debt problems than had been originally assumed, and therefore the financial crisis will last much longer than was foreseen for situations of this type when the IMF was created. The guiding principle of this institution was to provide relief until the countries with problems, after having only temporarily departed from the norm, returned to the *status quo ante*. According to this principle, only a very short time needs to be allowed for this recovery: the IMF grants financial relief for only one to three years, while the rescheduling covers no more than the immediate maturities. The agreements in force, both those concluded with the IMF and those reached with the banks, are characterized by these short maturity periods.

However, recent experience seems to suggest that such measures are only the first step in a long process of future negotiation, in which it will be the rule, rather than the exception, to amend the earlier agreements. The countries are involved in a process of almost permanent refinancing, and keep on borrowing merely to pay the interest.

These defects in the instruments used institutionalize to some extent a weakness in the system which, according to initial assumptions, should have been only transitory. For the debtors this creates a marked distortion in economic policy, since financial and short-term aspects acquire undue weight in decisions, to the detriment of productive criteria (Ffrench-Davis, 1983). At the same time, though the IMF continues to produce collective public goods (services of co-ordination and supervision of the financing processes), these turn out to be more useful to the creditors than to the debtors. In fact, the IMF procedures have isolated the debtors, while facilitating joint action on the part of the creditors (Lipson, 1981). Despite this, confidence has not been restored, nor has the credit market resumed operations on an adequate basis. Hence the financial safety net would appear, at best, only to be able to prevent the total collapse of the system and permit the continuance of a precarious *status quo*, without solving the fundamental problems.

In these circumstances, the international financial system would lose its role of lubricant of the engine of growth, to be transformed into an instrument whose chief function would be the maintenance of the present levels of indebtedness. This suggests that the problem should be considered from another angle, with a view to attaining solutions that would be less burdensome, more in keeping with the situation, and more permanent.

[12]The concept of short-leash financing is that wich imposes a short time horizon for the renegotiation of the debt.

II

Criteria for the conversion of the outstanding debt

1. *Common aspects of the various proposals*

There is a second set of proposals with a common aim (though they differ considerably in the means chosen to achieve it), which is to eliminate the obstacles to the normal functioning of the financial system and enable it to maintain its traditional role of financing development. They also agree on the diagnosis, namely, that the exogenous factors —previously regarded as the basic cause of the current problems— merely accelerated and aggravated a latent crisis. According to this approach, the present problems are solely the result of an imprudent and excessive expansion of international credit during the previous decade, so that a safety net could hardly provide a solution to the existing difficulties. On the contrary, as such a measure would perpetuate the errors of the past and thus transform the outstanding debt into a dead weight on the countries, it would hamper the return to normal credit operations. This analysis has given rise to efforts to define a strategy —at once rational, expeditious and efficient— aimed at restructuring this debt overhang.

The consequent proposals coincide in attempting to replace the present individualized method by one which is more global and systematic. They provide a basic standard framework, with clearly defined reference criteria, within which the national cases could be considered. At the same time, they propose a better distribution of adjustment costs, since they consider that the existing principles governing their distribution between debtors and creditors, besides being manifestly unfair, could turn out to be counterproductive even from the creditors' point of view.

The current renegotiation excercises transfer most of the cost to the debtors. This procedure, however, has no economic justification, since all the agents involved bear some degree of responsibility for the present problems: the banks for having failed to pay attention to the volume of their loans to each country, the governments of the industrialized countries for having tolerated (or even, with their monetary policies, favoured) this situation, and the debtor countries for having pursued imprudent policies of indebtedness. Consequently the authors who support this approach insist that all the parties should help in the search for solutions and share the burden of readjustment, accepting their portion of loss. Finally, these economists use the same argument to justify the conversion of the outstanding debt: they point out that to reject this aspect would be tantamount to ignoring the reciprocity of interests between the parties. On the one hand, the tensions caused by the present adjustment process threaten the internal stability of the debtor countries, which could be driven to such extremes as declaring a moratorium, thus provoking a serious fall in banking assets. On the other hand, it may be assumed that the cost to the banks of sharing the burden of adjustment would be much lower in the end (Devlin, 1983). At the same time the industrialized countries have an interest in the affair, since a moratorium would be prejudicial to their economies, both internally (in respect of credit, production and employment) and externally (owing to the concomitant instability of international relations). Without taking the projection so far, it has been argued that the debt crisis has slowed down recovery in the United States owing to the considerable fall in its exports to Latin America.[13]

2. *Differences between the proposals*

Despite these similarities, the proposals to be analysed advocate very different paths for arriving at the same goal. The main differences are in the degree of efficiency attributed by the authors to the market mechanisms for surmounting the cri-

[13] It can be estimated that the reduction in sales is directly responsible for a drop of 0.3% in the GDP of the United States in 1982 and the loss of 225 000 jobs (Dhar, 1983). The potential effects on the United States economy of a moratorium declarated by the larger Latin American Debtors have been well analysed by Wyss and Napier (1983).

sis and the flexibility and resilience capacity attributed to the banking sector.

Regarding the first aspect, the authors either favour or reject the intervention of the monetary authorities in the debt conversion process. To rely entirely on market mechanisms would restrict the action to the banks and their clients, with the monetary authorities excluded from the process. On the other hand, some authors point out the presence of basic defects in the functioning of the international credit market and therefore favour public intervention.[14]

To the classic problem of intervention, however, there is added another dimension, since it is not easy to define the public authorities that ought to take action. The debtors themselves are sovereign nations and possess widely recognized discretionary power in the economic sphere. But this sovereign power is limited, by definition, to the domestic economy of the country. In the international market these same countries are merely agents acting in competition with other agents (many of them private) and have to comply with the laws of the market.

If it is conceded that public intervention in the economy is characterized, broadly speaking, by the discretionary power of the respective authorities and the absence of any legal right of appeal against their decisions, the only form that this sovereign power can assume on the international plane is multilateralism.

Consequently, three different courses are proposed, depending on the conceptual frame adopted (see annex). The first favours the free play of the market, and proposes its use to surmount the present crisis. The second, in contrast, emphasizes the public dimension of the problem (in the traditional economic sense of the word), and advocates a multilateral approach to regulate the international credit market. The third position distrusts the two above-mentioned approaches, whether because of their inadequacy or the irksome delay they imply, and prefers unilateral non-commercial action on the part of the debtors.

The first viewpoint, favouring the free play of market forces, does not recommend the exclusion of public bodies in trying to solve the debt problem: its objection is to discretionary multilateral action.

In a more pragmatic analysis, the choice is also influenced by the resilience capacity assumed for the banking sector: if the banks are considered to have a flexible and rational attitude there is no need for a catalyst or a buffer for the adjustment process. On the other hand, the opposing theory points to the rigidity that has hitherto characterized the banks and their dangerously high level of exposure in each country, contrasting these with the public dimension of the current crisis (Devlin, 1984). Hence, multilateral public action is proposed, the type and magnitude of which will be linked with the estimated resistance capacity of the banks. On this latter assessment, then, will depend the share of the adjustment that will fall on the industrialized countries.

On the choice between private and public action depends, in the last instance, the form of the adjustment; recourse to market mechanisms only brings about a reduction in the negotiable value of the debt (i.e., a fall in the value of bank assets), while public intervention may also have an effect on interest payments, removing them from a purely commercial context and bringing them into line with the actual needs of development.

For their part, the advocates of the unilateral conversion of the debt, while recognizing the inadequacies of the market, also doubt the efficiency of public regulation in the present conditions. In particular they claim that collective action would take so long to achieve any result that it would not compensate for the cost accumulated by the debtors. They therefore recommend the adoption, once for all, of a solution

[14]Traditional economic theory indicates some cases in which the free play of market forces is not sufficient to ensure the achievement of a socially optimal equilibrium, either because of the particular nature of the good in question or through a chronic defect in the corresponding market. In such cases equilibrium can only be attained by non-market means. This intervention is usually conducted by the State and hence it is called "public intervention". In a modern economy, however, the State has considerably enlarged its economic role and frequently acts like any other agent, complying with the rules of the market. Thus the word "public" has a double meaning and might lead to misinterpretations. In the following pages the term will be used in the classic sense of economic theory: it implies a reference to a market situation, but not to the legal status of the parties involved.

without commercial criteria, that is, the unilateral conversion of the debt.

Although the various proposals for conversion of the outstanding debt spring from a common dissatisfaction with current practice, they recommend totally opposed solutions for surmounting the crisis. The reasons given by the authors for the existing inefficiency can be divided into mutually contradictory categories: one side puts the blame on excessive public intervention and proposes to suppress it, leaving the market free to convert the debt into capital; the other side criticizes the public role as insufficient and recommends a broadening of its scope in order to transform the debt into public bonds. A third current of opinion rejects both the market mechanisms and public control and proposes a non-commercial unilateral solution.

III

Debt conversion by market mechanisms

1. *General definition*

The supporters of debt conversion by market mechanisms criticize a practice which has been fairly common during the period since the war: i.e., the use of public intervention to regulate the functioning of the market and thus avoid socially destabilizing crises. This criticism forms part of a more general analysis, developed especially in the 1970s, which calls into question the entire role of the State in the economy.

With regard to the debt crisis, attention is drawn to the erroneous policies pursued by the debtor countries, in which the concentration of investment decisions in the hands of public bodies caused a distortion in the allocation of resources and inefficient use of the credits obtained.[15] This familiar criticism is extended to the international economy, in which public intervention assumes the form of multilateral management. In the financial sphere, the advocates of a return to the free play of the market roundly condemn the system created by the Bretton Woods Agreement. According to them, the organization established in 1944 was rendered obsolete by the trade and monetary evolution of the 1970s, but like all public structures it exhibits a marked inertia and capacity to persist.[16] The Bretton Woods institutions, it is claimed, did not develop in consonance with their external environment and thus prevented the necessary adjustments that the free working of the market would have produced.

In particular, the International Monetary Fund is accused of hampering adjustment by its injections of funds, which discourage the banks from recognizing their book losses. Hence, despite the deterioration of their portfolio of loans, they end up with ever larger profits. This paradox, it is claimed, will probably persist as longs as public intervention continues to mask the market signals or to weaken them with the illusion that there will be a public guarantee in the last resort.

The maintenance of this public control, say the supporters of this analysis, has its cost, since resources are assigned to it to the detriment of production. The cost is unjustified as long as the measures applied do not provide a viable way out of the crisis. They consider it more expedient, in these circumstances, to allow the free play of the market and return to traditional banking practices. These authors underline the similarity between domestic and international financial crises and propose the extension of the measures commonly applied by the banking sector in the domestic market to overcome the difficulties in the international sphere. All these proposals include, in the short run, the recognition of their

[15] Although the analysis is broadly known, a clear and analytically representative exposition will be found in Meltzer (1983).

[16] The economist Milton Friedman, opposing in the United States Congress the proposed increase in that nation's IMF quota, remarked that "international bureaucratic organizations never die nor fade away". Quoted in Brimelow (1983).

book losses by the banks. Nevertheless, they can assume varied forms with a greater or lesser degree of complexity (see annex).

2. *Creation of a secondary market*

The simplest and most spontaneous market solution consists in the creation of a secondary market, where the banks can trade their debt securities (*The Economist*, 1983). This was more or less the method used to deal with the financial crisis resulting from the recession of the 1930s. The same idea was put into practice, at least in part, in the year following the Mexican crisis of August 1982: a secondary market has been operating in London, where securities on loans to countries of the Third World considered at risk by the banks are traded, although in a covert way and in fairly small amounts.[17]

The essential feature of the method is its simplicity. In effect, the securities are not modified in form but in mobility. The mechanisms of the international capital market will themselves define more accurately the terms of the adjustment. This is why this adjustment only affects the amount of the principal. The price (i,e., the interest rate) continues to be determined by the market according to the fluctuations of supply and demand. Hence the proponents of this type of solution reject the artificial reduction of interest rates as an adjustment measure, since it would cause distortion in the assignment of credits.

The cost of the adjustment, for its part, falls solely on the direct agents, i.e., the banks and the debtor countries. For the latter the issue is rather a continuation of the painful process of internal adjustment, with some relief in service payments and possible improvements in future financing. In contrast, the banks will have to suffer further considerable losses.[18]

At all events, according to this criterion, the division of the cost between debtors and creditors is the result of the assessment of risk made by the market an should not be influenced by discretionary decisions.

3. *Conversion of the debt into productive capital*

Within the same concept of market primacy but adding a more complex conversion process, there are two proposals for transforming the debt securities into productive capital bonds. This suggestion is justified by the claim that, since a country's solvency ultimately depends on the situation of its real productive assets, the creation of a clear nexus between these and the outstanding debt would provide a rapid and effective way out of the present crisis, since only in cases of patent insolvency (which presumably will be few) would substantial losses be sustained.

As in a secondary market, this loss (equivalent to the banking cost of the adjustment) affects in the first place the value of the principal, and is determined by the assessment of the market, since it involves negotiable bonds. However, in contrast with the previous proposal, another part of the adjustment affects the revenue yielded by the bonds. Whereas in the secondary market the holders continue receiving regular principal and interest payments according to the variation of the commercial rate, in the new conditions they receive dividends which fluctuate according to the true profitability of the real assets they represent. Of course, this is a considerable difference. In no way, however, is it due to discretionary action, or to the distortion of the market mechanisms. In effect, to determine the profit, one market (that of credit) is replaced by another (that of goods and services).

a) *Conversion into shares*

Of the two proposals mentioned, the simpler is the conversion of debt securities into shares in the national enterprises (Meltzer, 1983).[19] Allan

[17]At the end of 1983, Latin American loans traded between 75% and 87% of their book value (Brimelow, 1983).

[18]According to various bank estimates, the securities will be negotiated on average at a price 25% below their book value. For the nine leading banks in the United States a fall of this magnitude in the value of their loans to Argentina, Brazil and Mexico would be equivalent to losing one-third of their capital (Brimelow, 1983).

[19]This idea is not so very novel, since the practice is quite common in the domestic markets of various countries: when an enterprise is undergoing serious payment problems, the bank frequently converts its debt securities into capital for the enterprise. Its extension to the international credit crisis is certainly novel, since it places sovereign bodies in the position of debtors. It would particularly affect public enterprises, which in the Third World have a considerable produtive capacity.

Meltzer proposes, in particular, the inclusion of the Mexican petrochemical enterprises and the Brazilian hydroelectric power plants. He also recommends that this process should be applied only to part of the debt and should take into account the depreciation already suffered by the bank securities. The shares issued would then have a lower value than the initial book value of the loan. The amount of this reduction would be decided by negotiations between the country and its creditor banks, assuming in the first place that the banks are willing to negotiate. Meltzer states that, despite the book losses they would have to accept, the banks might collaborate in a system of this type, always provided that the discount was less than the real fall in the market value. In this way, besides avoiding heavier losses in case of delay in payment, they would improve the composition of their portfolio with safer and more stable securities.

For the debtors it implies a radical change in the servicing conditions. With the capitalization of the outstanding debt amortization payments disappear and interest payments are transformed into remittances which are not tied to the fluctuations of the international capital markets but to the real profits of the enterprises.

b) *Conversion into financial securities with rights over the resources of the country*

With the same adherence to market mechanisms, the option propounded by Norman Bailey (Bailey, Luft and Robinson, 1983) seems a compromise between the two previous proposals. It includes a conversion process which, although inspired by the measures usually applied in dealing with internal payment problems, attempts to adapt them to the fact that the debtors involved are sovereign. This United States economist proposes to convert the existing debt securities into a new financial instrument, known as an "exchange participation note", issued by the Central Bank of the debtor country. It does not bring about such sudden changes in the financial relations between the countries and their creditors; it does not constitute a title of ownership of the national resources; nor does it represent full capitalization of the outstanding debt. It is assumed, besides, that there will be no modifications as regards interest payments.

The real change affects the payments of capital, which would be based on a fixed percentage of the country's annual foreign exchange income. Hence the author rejects as a basis the value of exports of goods, since numerous countries receive a substantial part of their foreign exchange through services (tourism) or transfers (emigrant workers). Although the system involves a great deal of statistical work it is only in this way, says Bailey, that the amount payable will be adapted to the real payment capacity of the country.

4. *Comments*

The three strategies described above have a common aim, which is to revive the confidence of the financial system so that it will once again fulfil its original role of financing development. They seek to achieve this in different ways. The fact that the securities are negotiable enables the risk to be spread by increasing the number and diversity of the creditors. With the elimination of the debt overhang the current financial agreements can be dispensed with and time and resources freed for financing output and trade. The conversion of the debt into capital also fosters a background more favourable to economic growth, by linking the credit flows with productive efficiency and trade.

The attraction of these prospects is evident, but the problems they raise must not be ignored. To begin with, the data on which the analyses are based err on the side of optimism as regards the capacity of the system to react to sudden changes. There is no reason to believe that the banks can absorb the losses involved, nor that the debtors will be able to sustain their difficult internal situation for the time required. The tensions generated might cause panic in the international capital markets, with all the ensuing economic, political and social upheavals.

Moreover, these plans do not provide incentives to offset the risks and induce debtors and creditors to agree to carry them out. Even the setting up of a secondary market (the simplest proposal among them) seems almost unattainable, since there appears to be neither demand nor supply for these transactions. To negotiate their securities openly would mean a loss of prestige and authority for the banks.

Thus, they prefer to keep their loans on their books at the initial book value, although it does not represent the real market value. The advantages of these plans seem to lie in the distant future, so that they do not carry much weight in the banks' assessment for more immediate periods.

Nor do these proposals offer very encouraging prospects for the debtor in the immediate future. The conversion of the debt into negotiable securities is not enough to provide real relief in service payments. The creation of a secondary market does not in any way affect them, and Bailey's proposal serves only to alleviate amortization payments, when it is the payments of interest which have reached untenable levels. Meltzer's proposal, on the other hand, solves the servicing problem, but at a high political cost, since it demands, after years of restriction of direct foreign investment, the abrupt elimination of a practice now well established in the Latin American mind.

Likewise, the use of securities tied to the resources of the debtor country, despite its more beneficial aspect, poses similar difficulties, since it would compel the banks to interfere excessively in the domestic affairs of the country. The problems encountered by the private banks in Peru (Devlin, 1980) show how difficult it could be to exercise the control required for the orderly functioning of the system.

A final obstacle is that of organization. It is not clear how creditors and debtors could coordinate their actions, since the financial market does not provide an adequate framework for spontaneous adjustments. A conversion process of such magnitude, scope and complexity requires certain bureaucratic rules, which are precisely what these authors reject. To apply this rigorous market criterion to the present debt crisis would in effect be not only utopian but completely unrealistic.

IV

Conversion of the outstanding debt by collective action

1. *Theoretical basis*

This approach is based on a different theory; its advocates consider that the crisis of indebtedness has always been a public problem, since along with its exceptional scope and magnitude, its costs are regularly externalized by the agents that produce them (Devlin, 1984).[20] This hampers co-ordination among participants, and the lack of a permanent solution tends to generate even higher costs for the future. Hence a public solution is recommended, in the form of tripartite action in which the participants are the banks, the debtor countries, and some international public agency. Regarding the last-named, there is little real difference of opinion among the advocates of this criterion, since the alternatives are to create a new body or enlarge the functions of one already in existence.

They also agree on the global pragmatic framework in which these proposals fit. In the first place, they recommend a more equitable distribution of benefits and costs. The banks dispose of their weaker loans and acquire safer assets at the cost of an accounting loss. The debtor countries obtain servicing terms more suited to their current situation, but they must initiate a process of internal adjustment. The international agency involved would, in principle, act only as intermediary, in order to help place the system on a sound basis. According to this plan, the industrialized countries would only provide their guarantee for the process. In the event of unforeseen difficulties (default by a debtor, bankruptcy of a bank, or any conjunctural

[20] This conclusion corresponds in theory to a social market economy, in which the public authority should intervene to regulate the market, forestall serious crises and produce structural changes when necessary. But the public solution on the international economic plane implies collective action, since a unilateral decision on debt conversion by country is merely a discretionary and non-commercial act on the part of a market agent who decides to withdraw from the transactions. This latter case will be analysed in more detail in Part v.

problem), however, they would have to provide financial backing.

Various methods have been proposed for putting into practice this scheme of collective intermediation. Two have been examined in greater detail (see annex). Their difference lies in the degree of public intervention favoured, which also affects the magnitude of the ensuing conversion process. One proposes the integral conversion of the outstanding debt into international public bonds, which calls for direct, broad and persistent collective action. The other favours a form of public intervention limited to the granting of an official collective guarantee; this would not constitute a radical change in the securities, but would, according to its advocates, modify some of their basic features, such as maturity, value and interest.

2. *Conversion into international public bonds*

A frequent proposal has been to convert the outstanding debt into international public bonds. Three United States economists have published articles on the subject and the Ministry of Economy of Argentina proposed a plan on these lines to the creditor banks. Professor Kenen (1983) recommends the transfer of the bank securities to a multilateral agency, which would swap them for longer-term bonds (10 to 15 years) with a value 10% lower than that of the present bonds. This discount would enable the new creditor to grant more favourable service terms to the debtors, i.e., lower interest rates, a longer grace period and the rescheduling of maturities.

The proposal published by Richard Weinert (1983) is similar in its general lines but differs from the foregoing in the practical aspects of its execution. He rejects the creation of a new official agency, and proposes the World Bank as the intermediary; he does not favour a reduction in the total value of the debt, but a reduction in the interest payments, since as it is a question of a conversion into public bonds, the rate offered should be lower than the going market rate. The author contends that this would give the banks the impression of a smaller loss, since it would be gradual, scheduled over time, and would affect bank profits rather than assets (it is argued that the latter might even rise in value, through seeming to be more stable and secure). The banker Felix Rohatyn (1983), noted for his efficient handling of the New York City financial crisis in 1975, invoked the same argument, proposing a very similar plan of debt conversion under the aegis of an international agency, but with a new element: in his scheme the debt services should not exceed 25% to 30% of the exports of the debtor country, which would imply much longer maturity periods (between 15 and 30 years) and an interest rate of around 6%. Moreover, Rohatyn insists on relaxing bank regulations so as to enable the banks to right down their losses over a longer period, thus protecting the stability of their assets.

Finally, Bernardo Grinspun, Minister of Economy of Argentina, proposed that the countries should issue bonds for the total amount of their debt (*El Mercurio*, 1984). These securities would be transferred to the Inter-American Development Bank (IDB), which then issues its own bonds for the same value as the former, but with a long maturity, a grace period and a fixed interest rate. These bonds would finally be delivered to the creditor banks. As the IDB received payment for debtor countries, it would proceed to make installments to the creditors banks.

Rohatyn's proposal is the only one which describes in some detail the new conditions offered to the debtors for the servicing of their debt to their new creditor. In contrast, various options are put forward for the terms offered to the banks. The Argentine proposal seems the most general, since it does not include either the terms of the offer or the subsequent supervisory machinery. The other plans advocate a more limited but more flexible system. Their authors propose the intervention of some public body, but insist on presenting their schemes to the banks and debtor countries merely as an optional solution, tied to the acceptance of specific conditions: namely, that the debtor countries must apply domestic adjustment policies under the supervision of the IMF, and the banks must accept a reduction in the value of their assets.

At the same time, an attempt is made to define the practical modalities of the conversion process. Professor Kenen is concerned to prevent the banks from distorting the process for their own benefit. Hence he favours strict, precise and non-negotiable conditions, as regards

both the time during which the offer would be valid, and its scope.[21] In contrast, Richard Weinert favours differentiation according to the profitability of the loans, hoping thereby to keep part of the external debt on a commercial basis so as to maintain bank financing in the future. To the same end, the only limitation he accepts is to forbid the banks to convert the whole of their securities in respect of a particular country, since this would completely isolate that country from the commercial financing system.

3. *The collective official guarantee*

In a solution of more limited scope, public intervention is restricted to a collective official guarantee on the outstanding debt, while the forms and conditions of the reprogramming continue to be subject to direct negotiations between debtors and creditors. Thus the authorities do not intervene directly but merely seek to establish a more propitious framework for a process that must continue to be ruled by market forces.

Two ways of applying this concept have been indicated. One follows a very cautious path, since it proposes to use the existing agencies as a channel for the guarantee, with only slight modifications in their procedures. The other is more ambitious, since it employs the guarantee as a direct instrument for reducing the interest on the outstanding debt.

a) . *Adaptation of existing mechanisms*

Two economists have developed this idea. Lord Harold Lever (1983) suggests enlarging the field of action of the national export credit and insurance agencies which already exist in the industrialized countries and which, according to him, should also deal with capital movements. He proposes to group them into a central organization that would assess, with IMF collaboration, the maximum (reasonable and sustainable) amount of external credit that each country should receive. If this amount is calculated on the basis of the deficit on current account, a figure will be obtained which would enable the debtor to fulfill his development needs and also face his payment commitments. Then, each agency would give an official guarantee in respect of the credits granted by the corresponding national banks, always provided that the total remained below the ceiling specified.

The banker Minos Zombanakis (1983) regards the IMF merely as a channel for the guarantee. He proposes the extension of the adjustment programmes (to periods of 10 to 15 years), and the inclusion *ex officio* of the Fund in the restructuring negotiations (which is already occurring, but unofficially). A novel element is the proposal for the Fund's guarantee of the payments falling due in the last years of the period.

According to both these economists, the official guarantee is intended to establish a set of incentives that will favour the orderly functioning of the credit market by infusing greater stability into the system.

The debtors would enjoy longer maturity periods and thus might introduce more steady reforms (so as not to lose the benefit of the guarantee). For their part, the banks would maintain their accounting intact, since their securities would not really be converted into public bonds. Nonetheless, since the securities are as viable and safe as public bonds, their maturity can reasonably be modified in the same way, together with their terms of servicing and refinancing.

Finally, the industrialized countries are asked to contribute by either increasing the resources of the export insurance agencies (Lever) or granting lines of credit for a central fund to back up the IMF's guarantee (Zombanakis). As in the preceding schemes, however, these resources would only be mobilized in extreme cases. The cost of the system would be equivalent to the guarantee of last resort which in any case the countries themselves have tacitly accepted.

[21]The first risk that he points out would be postponement of the conversion by the banks until the real market value of their securities had declined far more than the fall allowed for in the plan. He therefore considers it necessary to give a fairly short and non-renewable period for deciding on the solution described, after which the offer would be withdrawn. Nor would it be desirable for the banks to restrict the conversion only to the bad debts in their portfolio, thereby preserving the gains on their profitable loans while socializing their losses (i.e., passing them on to the community). To prevent this, he proposes the inclusion of uniform numerical criteria for fixing the limits of the process (e.g., the conversion should cover a certain minimum percentage of the total portfolio of the bank, without distinction between countries).

b) *Guarantee on minimum interest payments*

The proposal published by SELA (1984) is also in favour of a collective official guarantee as an incentive for the banks to reduce their interest rates. However, it does not specify the institutional arrangements for this guarantee, which according to SELA's study, could be provided through an existing multilateral agency, a fund created for the purpose, or even the central banks of the industrialized countries. It is only pointed out that it might be counterproductive to extend the guarantee to all the bank securities for a country, since in that case no commercial relationship would remain.

On the other hand, SELA's proposal includes much more precise and far-reaching changes regarding the new terms of credit, and particularly the interest rate. According to the authors, it would not be advisable to fix this rate much in advance, since it should fluctuate to adjust to the real payment capacity of the debtor country, which depends on its external sales and the trend of the terms of trade.

In no case should a country devote more than 20% of its export revenues to the servicing of its external debt, since this could jeopardize its possibilities of growth and development. Consequently, the interest rate paid by the debtor should be calculated every year, once the exact amount that the country can assign to its debt service is known.

The fluctuations of the rate would have a maximum (the rate originally agreed) and a minimum (the rate required to maintain bank liquidity). When even at the minimum rate the service payments would exceed 20% of the debtor's export revenues, the difference would be paid by the guarantor.

4. *Comments*

In the comments made on these proposals, the main objection has been the absence of an international body with sufficient power and prestige to enable the system to function efficiently. This lack creates difficult problems when it comes to deciding on the degree of public intervention advisable. Nor should it be forgotten that the banks continue to be tenacious defenders of the free market concept, and flatly reject any public intervention in their domain. Even an optional system such as that advocated by Kenen and Weinert smacks to them of nationalization. Likewise, the plans for outright conversion involve obvious banking losses, which cannot be welcome to the sector.

All these proposals would in any case create serious accounting problems for the banks. To reduce the value of the assets implies a loss, but this is not the most disturbing aspect, since reserves have been set aside for this contingency. The modification of the credit terms would have more radical and unpredictable effects, especially if the interest rate were to be reduced. Hitherto the banks have shown themselves even less willing to reduce their profits than to tolerate a fall in the value of their assets.

The importance traditionally attributed by the banks to the maintenance of interest payments reflects their concern not to tarnish their image of solvency in the eyes of their national supervisors or of their shareholders. A fall in the interest rate below the one originally agreed would force them to regard the corresponding loans as non-performing and would call into question the management of the bank portfolio. However, as long as the new rate remains equal to or greater than the marginal cost of procuring funds (LIBOR plus an operating spread), all that would be needed to avoid extreme tensions would be for the supervisory bodies to ignore the situation. On the other hand, a fall below LIBOR could jeopardize not only the image of solvency but also the liquidity of some banks. Such an event would call for much more extensive intervention by the monetary authorities of the creditor countries, even though this is not explicitly included in the proposals.[22]

The plans for the integral conversion of the debt, or for radical changes in the longer-term credit conditions, might prove counterproductive by provoking an even more severe and lasting contraction of bank lending to the develop-

[22]Except in Rohatyn's proposal, which points out the need to have more flexible accounting regulations to safeguard bank confidence. Despite this, it does not seem very certain that this collaboration of the authorities in the accounting field would succeed in counteracting the destabilizing effect on the financial system that would result from a drop in the effective interest rate to only 5%.

ing countries, which is precisely what the proposals sought to avoid. At the same time, it may be assumed that the international agencies would find it more difficult to place bonds in the capital markets, since they would be overburdened with assorted debts which would impair their creditworthiness. Thus they would not find it easy to channel private resources towards the Third World, whose liquidity problems would be increased. Owing to this probable rejection of the plans by the private sector, as Professor Kenen himself acknowledges, the conversion of the debt into public bonds would only serve as a final resort, when the other alternatives had failed.

Indirect and more limited action, such as the establishment of an official guarantee, only represents the other side of the coin. In this case the danger is not a negative reaction on the part of the banks, but their indifference and apathy, since it is by no means certain that the public guarantee would succeed in motivating the banking sector to grant the concessions which they have hitherto rejected. Even if some improvement in servicing conditions were obtained it might not be enough to provide relief for the debtors.

At the same time, it must be borne in mind that the acceptance and application of any decision of this kind involves a long delay, owing to the internal obstacles of the industrialized countries on the institutional and political planes. Lord Lever's proposal, by openly favouring the exporting sectors of the central countries, might be able to count on some degree of public support. But there remains the problem of imperfect co-ordination on the international plane, which would hamper the implementation of any of the aforesaid proposals.

V

Conversion of the outstanding debt by unilateral action

1. *The theoretical basis*

This third and last approach to the conversion of the outstanding debt is largely an attempt to remedy the shortcomings of the above-mentioned proposals. In the first place, it points out that these do not appear to open up very attractive prospects for the debtor countries. Under any of these schemes they must go on paying a high price for maintaining their access to the international financing market, although in practice this does not enable them to obtain a sufficient amount of credit. Nor do the said plans seem very favourable for other agents. This is why there has been no progress as yet on any of the proposals analysed, and it seems very unlikely that there will be a *volte face* in this respect in the near future. This continuing indecision has an extremely high opportunity cost for the debtors in the economic, social and political spheres, without holding out any prospect of compensatory benefits in the future. As a way out of this morass, some economists have proposed the unilateral conversion of the outstanding debt.[23]

In addition to the reasons of equity, social welfare and domestic policy invoked to justify this type of action there are also theoretical arguments. The implicit collusion on the supply side calls for corresponding collusion on the demand side. The serious defects of the present process constitute an overriding justification; Langoni

[23]This initiative, although emanating from a national public agency of a debtor country, would not be equivalent to public intervention in the broad theoretical sense of the term as used in economics. The activating entity would be a mere participant in a market, without having any discretionary or regulating power over it. Nor would the organization of a debtors' club —a widely publicized proposal— represent collective action in the sense employed above. It could rather be interpreted as an attempt at partial collusion among agents on the demand side. At all events, however, the two positions are unilateral, since they are not the outcome of an agreement between the parties, or even of a joint resolution by one of them, but merely of the decision of one or more participants.

points out that both debtors and creditors find themselves today in a no-market situation (Langoni, 1983), while Devlin (1983) adduces that a large proportion of banking profits in these conditions is tantamount to a monopoly rent. Thus the traditional patterns of renegotiation of the debt no longer suffice. As long as no efficient and expeditious solution of another nature presents itself, unilateral action by the debtors, no matter how controversial, would seem to be preferable to the *status quo*.

The simplest form of unilateral action is the moratorium, or suspension of payments. Although several countries have applied it in practice, it would be a bold step to adopt it openly as a reasoned policy. It should be emphasized, however, that the proposals for a moratorium do not imply repudiation of the debt, which would contravene tacit international norms with consequent loss of prestige for the debtor.[24] Hence, recourse to a moratorium has been envisaged not as an end in itself, but as an instrument to put pressure on the banks and compel them to make concessions.[25]

2. *Integral conversion of the debt into bonds*

In the proposal for conversion of the debt into bonds of the debtor country a more detailed suggestion for unilateral action was formulated. The best-known plan, presented by Dornbusch (1983) for Brazil, proposes that the Central Bank should issue bonds to cover the country's external debt on the following terms: a maturity of over 15 years, a five-year grace period, and an interest rate of 2% in real terms. According to this economist, this measure would be highly advantageous for the debtors in the short term. To begin with, there would be a prolongation of the maturity term and an implicit and amplified period of grace for the amortization payments (which are deferred until the end of the period). This simplification of the refinancing process, besides providing the very necessary short-run financial relief, would give more stability to the external payments situation and enlarge the economic policy horizon. [26]

The advocates of the plan assume, besides, that the banks would be satisfied, since their profits would also become more stable. Dornbusch considers that his plan confers a great benefit on the banking sector, since the rate of 2% is higher than the real rate of United States Government bonds during the period 1930-1980.[27]

3. *Comments*

The criticisms levelled at these proposals have centered on their conflictive aspects and the probable tensions they would produce in the short term. Attention has been particularly drawn to the legal reprisals which the banks could take against the countries, with a possible embargo on national assets and the immediate suspension of all bank intermediation, which would also compromise basic commercial operations. These possibilities, however, cannot be quantitatively assessed, since there is no precise international law or precedent on the subject. It is probable that diplomatic and strategic considerations would carry more weight, so that the repercussions would depend rather on international policy.

On the economic plane, the accounting effect of the plan on the banks is an important consideration: the conversion of commercial loans into bonds would affect the equilibrium of the bank portfolios, and since the bonds are negotiable, they could produce losses in their assets, while the change in the servicing conditions could result in the rearrangement of the portfolio, causing some loans to be written off. This plan would then have the same destabilizing effect on the financial system as some of the

[24]Lipson states that up to now no country has repudiated its debt, not even after a radical change of government such as occurred in Nicaragua in 1979 (Lipson, 1981).

[25]It was in Brazil that the idea of a moratorium was most widely canvassed, and several economists and politicians have advocated this type of initiative (Furtado, 1983).

[26]The use of fixed interest rates also helps to stabilize the payment situation. On the other hand, rates defined in real terms are an advantage for the banks, and in general for the financial system as a whole. It seems likely that the current high rates contain a premium for uncertainty about world macroeconomic conditions in the future. To offer a real rate enables this premium to be eliminated, and might contribute to a drop in the nominal rate, with a stabilizing effect on capital markets.

[27]The bank profit would be even higher in periods of accelerating inflation, when real commercial rates are actually negative.

programmes discussed earlier. In this case, the dimension of the crisis would depend on the number of countries affected, and on the volume of their debt in relation to the total assets of the banks concerned.

Finally, the plan could involve a high cost to the debtors in the long run, through a radical reduction in future bank financing. The banks have already shown that they have a long memory as regards their accounting losses. An open conflict between them and certain debtors would presumably leave deep and lasting scars and it would take a long time for credit relations to be renewed between the international private sector and the developing countries. To arrive at a more precise appraisal of the repercussions of unilateral conversion, a new and radical assessment would have to be made of the development strategy, and the role attributed to external indebtedness in that process.

VI

Conclusions

It is clear from the analysis of all these varied proposals that none of them offers an ideal solution. It might even be claimed that no such ideal solution exists, since the number of participants and the diversity of interests involved turn the external debt crisis into a tangle of conflicting aims.

Although an awareness of this situation by no means justifies leaving things as they are, it certainly puts some limits on future action. In the first place, the traditional economic reasoning does not meet the case. The existing imbalances will not automatically correct themselves. The academic rationale might indicate desirable results, and it would not be difficult to reach agreement as to these: the granting of short-term relief to debtors and enough credit not to impede their development, while maintaining bank liquidity and the stability of the financial system. But the economic analysis no longer provides efficient instruments for achieving these goals. The instruments depend on the power relations between the participants, which makes it difficult to quantify them and express them in a formal proposition. All the plans analysed have a defect in common: they do not say whence the impulse will come to put them into operation.

This is all the more true of multilateral action, although this would be more likely to reach a viable compromise. Nonetheless, two of the participating groups (the banks and the creditor countries) are obtaining sufficient benefit from the current procedures to prefer the *status quo*. So it is for the debtors to give impetus to the move.

At first these countries were rather passive in their approach, and did not make full use of the bargaining power they might have had by acting together. Since then, however, with their domestic, economic and social tensions becoming ever more acute, the debtor nations have been gradually adopting a more active stance, with a view to making the process more flexible and reducing the costs of renegotiation. In this respect the international and regional meetings organized on the subject made a valuable contribution. The text published at the close of the Latin American Economic Conference, in January 1984, was an important step forward, since, without overlooking the individual features of the different nations, it defined common criteria to guide the new renegotiation process followed by each country.

The final declaration of the Cartagena meeting, signed by eleven Latin American countries in June 1984, marked a further advance in the same direction. This document affirmed the growing convergence among the countries of the region in proposing clear guidelines for the policies of debt restructuring and external credit. At the same time, it announced the creation of consultation and follow-up machinery which would facilitate the taking of new measures when necessary.

These proceedings were intended to increase the bargaining power of each country, and to some extent practical results have been achieved.

The renegotiations recently concluded have resulted in credit terms somewhat more favourable than those of earlier agreements. Nevertheless, it must be stressed that these new conditions continue to be onerous for the debtor countries and the latters' access to external credit remains restricted. Hence it is necessary to proceed along the same course by way of regional co-operation. And although prudence may seem called for in order to avoid trouble in the future, we must not forget the daily cost to the Third World of the present conditions of renegotiation.

Annex

SUMMARY OF PROPOSALS FOR CONVERSION OF THE OUTSTANDING EXTERNAL DEBT

	Partial conversion	Integral conversion
Through market mechanisms	Creation of a secondary market	*N. Bailey*: conversion into a financial instrument whose amortization is tied to the annual foreign exchange income of the debtor country *A. Meltzer*: conversion into shares in the ownership of the debtor's public enterprises
Through multilateral public action	Granting of an official collective guarantee on the loans: *Lever*: the national export credit agencies guarantee the loans as long as the debtor country does not exceed the maximum indebtedness fixed for it by the IMF *Zombanakis*: the IMF increases the duration of its adjustment programmes to over 10 years and guarantees the service payments for the final years *SELA*: the countries devote a maximum of 20% of their export revenues to the servicing of their debt, while an international body guarantees payment of a minimum interest rate to the creditors	Conversion into long-term international public bonds with new servicing conditions: *Kenen*: 10% discount on value of loan *Weinert*: lower interest rate *Rohatyn*: new conditions are made which prevent the servicing from representing more than 25% to 30% of the debtor's export revenues *Argentine proposal*: period of grace and fixed interest rate
Through unilateral action	*C. Furtado*: moratoria for the adjustment period	*R. Dornbusch*: conversion into public bonds of the debtor country, with 15 years maturity, a 2% real interest rate and a five-year grace period

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Book reviews

Jorge Daly: **The Political Economy of Devaluation: The Case of Peru 1975-1978.** Boulder, Colorado: Westview Press, 1983, 127 pp.

This is a very interesting little book and to a certain degree bears theoretical implications for adjustment and stabilization that go beyond the Peruvian case. Moreover, its analytical scope is impressive: Daly evaluates Peru's efforts to overcome its balance-of-payments crisis of the late 1970s by employing a structuralist model developed by Professor Lance Taylor (who in turn relies heavily on Kalecki), as well as the theoretical insights of the Neo-Marxist, Neo-Ricardian and Dependency schools of thought; he updates and evaluates the monetarist-structuralist debate, and he also explores methodological questions concerning positivism and the biases ("theory ladenness") inherent in certain analytical tools of evaluation.

The book's primary purpose is to evaluate the short-term economic consequences of devaluation of the Peruvian sol in the context of the orthodox adjustment policies applied by the authorities during the 1975-1978 crisis. The basic hypothesis tested is that devaluation of the sol during this period significantly reduced the growth of the national product and had costly social side effects, with concentration of income being a chief manifestation of the latter. Another important dimension of the study is that by deploying the concept of a "mode of accumulation", Daly attempts to prove that the Peruvian crisis did not have its roots in disorderly conjunctural market phenomenon, but rather in a structural crisis imbedded in the country's development strategy. The author moreover attempts to prove that devaluation is more than a mere instrument to bring the external accounts into equilibrium; rather he views its primary role as a political tool which transfers income and power from one capitalist class to another and helps establish a new mode of accumulation.

The author begins his substantive analysis with a survey of the theoretical rationale of stabilization and adjustment policies. Daly feels that the application of orthodox policies in Peru can best be understood in the light of the famous monetarist-structuralist debate. He argues that the roots of the monetarist approach lie in the exhaustion of the vigorously applied import substitution strategy of the 1950s and 1960s: it was a response to the failure of structuralists to develop realistic alternatives to overcome the supply bottlenecks and growing economic crisis. One of the major problems posited is of a political nature: many of the supply constraints could be relieved only by impinging on the economic interests of important political groups. When the State did in fact directly tackle the problem with reforms —as did the Velasco government in Peru and Frei and Allende in Chile— the task was made more difficult by a negative response from the private sector, frightened as it was by the reforms and the inflation that usually accompanied them. In view of this, greater burden was placed on the State to sustain growth and raise and redistribute incomes. Government deficits consequently expanded and, given the limited scope of local financial markets, resources were secured from Central Banks with consequent inflationary pressures.

The crisis of structuralism was fertile ground for the growth of monetarism, according to Daly. The monetarist approach offered a way to control inflation, establish price stability, generate confidence in the private sector and revitalize the growth process. A centre piece of the monetarist stabilization policy was "getting the prices right" after the distortions derived from structuralist government intervention. One of the key prices was the exchange rate, which had been overvalued, hence making devaluation a cornerstone of policy. The other two monetarist tools Daly cites are fiscal and monetary restraint. But given the focus of the book, Daly's main concern is with devaluation.

The author argues that monetarist stabilization and adjustment policies underwent an important shift in the 1970s. First, with the adoption of the monetarist focus by authoritarian régimes it ceased to be a short-term economic policy for crisis and became a long-term development strategy. Second, the monetarist approach stressed trade liberalization and promotion of exports and legitimized neoliberal development strategies.

After briefly discussing the elasticity and absorption approaches to devaluation, Daly gives a simplified account of the monetary approach to the balance of payments. It is pointed out that, according to this frame of reference, any balance-of-payments deficit or surplus will be eliminated by a self-correcting mechanism if government authorities do not interfere in the movement of monetary flows. Persistent deficits (as well as inflation) are attributed to excess demand and can be traced to government intervention and the expansion of domestic credit above desired real balances. As for devaluation, it is seen as a way of accelerating adjustment: it raises prices, reduces real money balances to desired levels, and thereby reduces aggregate demand, inflation and imports. It also changes the relative prices of tradeables and non-tradeables, shifting resources to exports and import substitutes. Daly has two main criticisms of the general monetary approach. First, that it focuses on the "bottom line" of the balance of payments, i.e., reserves, and does not concern itself with the current and capital account *per se*, which makes it permissive concerning the volatility and destabilizing effects of capital flows and debt growth —a costly lesson that is examplified in the Southern Cone. Second, it displays a blind faith that a single large market will adjust automatically and a willingness to tolerate strong deflation; it thus represents a step backwards from the classical postulates that preceded the Keynesian revolution. Daly's analysis of these approaches is effectively synthetic; the major defect is that it does not clearly distinguish between how the various policies apply to internal stabilization and to external adjustment processes.[1]

The empirical evaluation of Peru's stabilization efforts is thought-provoking. Daly applies Taylor's macroeconomic model, which is based on national accounts identities. The author selects this model because it is characterized by some

[1]The differences are more clearly delineated in ECLAC, *Adjustment policies and the renegotiation of the external debt*, Santiago, Chile, E/CEPAL/SES. 20/G. 17, February 1984.

stylized facts which are in his view closer to the economic reality of an LDC, such as inelastic demand for agricultural products, an oligopolistic industrial sector that prices on the basis of a cost-plus mark-up, and the existence of short-term price inelasticities for exports and imports; and there is explicit consideration of income distribution on the basis of functional shares. The model has predicted reasonably well and he demonstrates that the improvement in the external accounts in Peru had little to do with the traditional theoretical arguments for devaluation. Exports rose largely on account of an exogenous shift in the terms of trade and the coming-on-stream of export projects initiated well before the period of devaluation. Imports, on the other hand, contracted largely on account of falls in aggregate demand brought about by a reduction of real wages stemming from devaluation and other policies. Inflation experienced in the period was found to be linked to the devaluation and cost push factors rather than demand pull as such.

In what is perhaps the most interesting feature of the book, Daly attempts to complement his empirical analysis with a broader theoretical framework based on political economy and the notion of a mode of accumulation. He incorporates three interpretations: i) Neo-Marxist, based on value theory; ii) a Dependency approach and iii) a Neo-Ricardian framework.

Making reference to the Neo-Marxist analysis of Weeks,[2] he explores the possibility of the crisis having arisen out of the persistence of pre-capitalist modes of production, characterized by outdated techniques, which impair the growth of surplus values and the rate of accumulation. According to Weeks, the crisis is resolved by dismissing workers, lowering real wages and pushing prices "above values", which raises the surplus value and eventually restores the process of accumulation. Daly, while sympathetic to the interpretation, finds some limitations. First, empirical evidence suggests that only a small percentage of Peruvian wage goods come from pre-capitalist sectors, and second he refers to the Joan Robinson critique that the Marxist law of value cannot be submitted to rigorous testing and therefore suffers from a metaphysical character.

He therefore goes "beyond value theory" and into the world of prices by incorporating de Janvry's framework,[3] which fits into the Dependency school. Essentially, the argument is a variant of functionalism: the capitalist and pre-capitalist sectors should not be viewed as antagonistic, as in the Neo-Marxist interpretation, but rather the capitalist sector reproduces itself by perpetuating and exploiting pre-capitalist relations via unequal exchange. Daly seems to accept this argument at face value, even though it cannot account for the historical fact of development in the periphery.

Finally, Daly considers the interpretation of Seminario and Cruz Saco,[4] which relies on a Kalecki-Robinson-Neo-Ricardian framework. This analysis postulates two capitalist classes: a capitalist export sector and an internal capitalist industrial sector. Both sectors reproduce themselves on the basis of the rate of profit. The exchange rate is a crucial factor and both capitalist sectors have divergent interests in this regard. The export capitalists favour an undervalued exchange rate. The import capitalists favour an overvalued rate. Rarely is an equilibrium rate between the two sectors achieved, however, thus setting off a cyclical pattern. An initial exogenous export surge stimulates the local economy, expanding internal industrial production, and establishes conditions for an overvalued exchange rate. This in turn causes foreign exchange to dry up and sets off a crisis which must be resolved by stabilization and adjustment policies that restore the profitability and hegemony of the export capitalists.

Daly finds the latter interpretation very useful for understanding the politics of devaluation. Essentially he considers that devaluation is a *political instrument* in an intra-capital struggle to establish a new mode of accumulation based on export promotion and free market forces. Indeed, as an economic instrument devaluation is viewed as deficient because it is not an efficient way to restore equilibrium in the external accounts; additional simulations of this Taylor-based model suggest that much more moderate devaluations, coupled with auxiliary measures such as taxes on windfall profits and more buoyant nominal wages, would have permitted adjustment with growth and less costs for wage earners. He also questions the neo-liberal export-led model as a general strategy for development, since it is highly dependent on exogenous factors for its success.

The study's conclusions on devaluation are very sensitive to favourable exogenous events; as the author recognizes, one factor —the rise in export supply from earlier investments— could have been predicted by the authorities, but foreknowledge of the improved terms of trade is much more problematical. Could there have been alternatives to a contractionary devaluation if these favourable exogenous factors had not been in play? This is an important issue in the exploration of a policy mix to promote short-term positive adjustment. But the author does not address this issue; there is unfortunately no analysis of non-monetarist-type manipulation of monetary and fiscal variables and other instruments that might conceivably facilitate an expansionary adjustment even in the face of unfavourable exogenous factors.[5]

Nevertheless, the basic thrust of Daly's analysis is relevant and helpful. The monetarist approach would appear to impose on Latin America an excessively simplified reality of a single fluid market mechanism which does not exist by any stretch of the imagination. In this sense, structuralist analysis, even with its defects, is a more courageous effort to interpret the development problem. This reviewer also agrees with Daly that the crisis brought on during the import substitution phase was not due so much to import substitution *per se*, but rather to the extreme and unpragmatic application

[2]John Weeks, "Crisis and accumulation in the Peruvian economy, 1967-1975", *Review of Radical Political Economics*, 1976, No. 4.

[3]Alain de Janvry, "The political economy of rural development", *American Journal of Agricultural Economics*, August 1975.

[4]Bruno Seminario and María Cruz Saco, *La naturaleza del ciclo económico en el Perú*, Lima, Universidad del Pacífico, Centro de Investigación, 1980.

[5]ECLAC (*op. cit.*) has recently attempted to explore some alternatives. Also see Daniel Schydlowsky, "Alternative Approaches to Short-Term Economic Management", Boston University, Center for Latin American Studies, Discussion Paper No. 50, October 1981.

of it. In this sense Hirschman's observation[6] —that the free-market critics of import substitution often reveal an anti-industrialization bias— is pertinent.

In today's crisis environment there is likely to be renewed interest in import substitution in Latin America. But hopefully it will be of the type that pushes the system in the direction of the attainment of internationally competitive production techniques and the expansion of industrial exports. This will require, among other things, rationalization of State intervention and improvement of its role as co-ordinator of production and exports, incorporation rather than exclusion of domestic agriculture,[7] human resources development, and trade liberalization that is gradual and selective, yet dynamically programmed to the need to equalize over time the costs of earning foreign exchange via exports and import substitution.

Finally, Daly is to be commended for venturing away from mainstream economics, eclectically deploying Neo-Ricardian, Dependency and Neo-Marxist frameworks to penetrate visible data and explain the underlying social relationships which they express.

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Autoafirmación colectiva: una estrategia alternativa de desarrollo. A selection by Enrique Oteiza. Lecturas 49. Mexico City, Fondo de Cultura Económica, 1983.

Although this compilation was published in Spanish in 1983, most of the papers in it were prepared for a seminar organized by the Third World Forum in 1976. Thus, the content and the conception of alternatives to a "dependent capitalist" development style, already perceived to be in crisis, reflect the critical discourse of the 1970s. This discourse was highly normative and unabashedly utopian in its demands for transformation, but tried to link these demands to operative, frequently technocratic proposals concerning specific aspects of development policy. It was also somewhat ambiguous in its identifications of the potential agents of the transformation and in assessing the roles of rationalistic planning, ethical imperatives, nationalist mobilizations and class struggles.

In a few short years the crisis has intensified and forced itself on the attention of ideological currents and social classes that were previously complacent. The critics of the 1970s saw a "style of development" that functioned well for some and very badly for others, leaving room for argument as to whether its accumulating contradictions were insuperable or remediable through judicious reforms accompanying accelerated accumulation and economic growth. The critics of today see a "style of impasse" disconcerting equally the advocates of continuism and transformation. The most salient features of this impasse seemed of secondary importance, or even reasons for optimism, during the 1970s.

The compilation under review contains chapters on development planning, delinking-relinkig *vis-à-vis* the world economic order, transnational enterprises, food production and consumption, regional integration and technical co-operation, all in relation to the objective of collective self-reliance. These papers remain valuable sources of ideas for present policy discussions, even within relatively modest strategic perspectives. The compilation also contains a revised version of a paper by Jorge Graciarena that appeared in the first number of *CEPAL Review* in 1976: a paper that grapples systematically with the commonly evaded questions of power and of social forces capable of identifying themselves with an alternative strategy. It is indicative of the changing visibility of problems, however, that the only discussion of indebtedness is in a long footnote in the Introduction, apparently written shortly before publication.

The Introduction, while making a conventional disclaimer regarding the widely differing characteristics and capabilities of countries, presents a comprehensive formulation of the elements of an alternative development strategy aiming at collective self-reliance (pp. 24-25):

a) Breaking of ties of external dependence, not only in respect of resource exploitation, financial and monetary mechanisms and transfers of capital and technology, but also in respect of control of mass communication media.

b) Mobilization of internal resources and capacities toward the production of goods and services for meeting basic needs, in preference to the demands of export markets and the luxury consumption of upper-income minorities.

c) Integration between the agricultural and industrial sectors in order to satisfy the basic needs of the population engaged in both.

d) Mobilization and participation of the people in the development process at all levels.

e) Mobilization of the people and of all available resources for the elimination of poverty and marginality as quickly as possible, while at the same time assuring economic growth.

f) Close co-operation with other less-developed countries that are applying similar alternative development strategies.

Another formulation in the Introduction spells out the meaning of point d), which might otherwise be satisfied by regimented "participation": "democratization not only of the formal political structures but also of the economic and social structures".

It is curious and saddening that the shocks to the "dependent capitalist" style of development, which should have confirmed the argument that alternative strategies incorporating the above elements are urgently needed, have not thus far imparted new creativity to the quest for such strategies, particularly with regard to their political viability. Rather, the expectations for collective self-reliance seem to have shrunk to proposals for collective negotiation with creditors, using the bargaining power derived from the threat of a joint moratorium on payments to induce the creditors to leave their debtors a minimum capacity for keeping the pre-

[6]Albert Hirschman, "The turn to authoritarianism in Latin America and the search for its economic determinants", in D. Collier, *The New Authoritarianism in Latin America*, Princeton, Princeton University Press, 1979.

[7]Economists from Marx to Nobel prize-winner W.A. Lewis have stressed the importance of raising productivity in domestic foodstuffs as a precondition for dynamic industrialization; it lowers the cost of wage goods, improves income distribution, and helps expand internal markets for industrial goods.

viously discredited style of development limping along. Instead of bold proposals for delinking and concentration of internal productive capacity on the meeting of basic needs, one finds arguments that countries must import in order to expand exports and vice versa. With regard to the most basic of needs, food consumption, one finds export-oriented agriculture even more dominant than before over peasant production of staple foods, in the face of deepening hunger among the poor and national inability to afford food imports or subsidies. Is the only alternative now in sight a return to the previous development rat race?

The list of countries here presented as hopeful examples of alternative development strategies applying variants of collective self-reliance suggests a partial clue to this lowering of expectations for transformation in the face of the crisis of dependent capitalism (p. 23): "China, Algeria, North Korea, Tanzania, Cuba, some Portuguese ex-colonies, Vietnam and Nicaragua". Some of these very different countries have solid achievements to their credit, but it would be hard to see in any of them a convincing approximation to the elements for an alternative strategy listed above. Their capacity to compensate for each others' weaknesses through collective self-reliance is practically nil, and two of them persist in an obsessive effort to harm each other. Individually, with the partial exception of China, they remain extremely dependent on external aid and exposed to external destabilization, and even China has abandoned its earlier pretensions to self-sufficiency and autonomous technological creativity. In several of these countries mass poverty, underemployment of human resources, and even hunger have persisted despite —or sometimes because of— a series of radical shifts in economic and social policies. For the rest of the Third World, these countries represent possible futures that might come to pass as a result of legitimate popular struggles within a perversely manipulative or coercive world order, and lessons that may help others cope with similar problems at lower human cost, but by no means models. René Dumont has spelled out many of these lessons in a series of country studies under the suggestive general title: *Finis les lendemains qui chantent* ... The experiences by no means discredit the elements proposed for an alternative development strategy, nor the proposition that such a strategy requires the coming to power of new social forces (p. 33), but they demonstrate that the path from a revolutionary beginning to the integrated and authentically democratic realization of these elements has many pitfalls. The hopes invested in China during the 1960s and 1970s —hopes finally demolished by the Chinese leaders themselves— indicate that proponents of alternative strategies should not be over-eager to identify successes.

Another partial explanation for the apparent downturn in creativity and hope with regard to alternative strategies may lie in a certain kind of delusive success during the 1970s, at another extreme from the excessive hopes invested in the few countries in which new social forces had taken power. While the real processes of development followed their course towards the present impasse, governments representing many variants of capitalist or bureaucratic power structures became surprisingly receptive to proposals for alternative styles and strategies, particularly through their representatives at international gatherings. Declarations and "plans of action" proliferated and absorbed the attention of the proponents of such alternatives within the international organizations. If the majority of governments welcomed such strategies and promised to apply them, irrespective of their power backing, the harder problems of the preconditions for their application could be set aside. The illusion that the power factor might be overcome through declarations of good intentions extended to the international sphere, in the endless negotiations over a New International Economic Order. As the irrelevance of the declarations to what was actually happening became more obvious, the resulting skepticism or ritualism cast a pall over the more creative and challenging aspects of the quest for alternative strategies.

The text tackles realistically the question of which interests dominate international negotiations: those of "countries" or those of dominant interest groups represented by transnationalized élites (pp. 31-32). However, it sometimes reverts to evasion of questions of power and the real intentions of the powerful, in particular in proposals for reform of the International Monetary Fund and the World Bank. If these institutions are controlled by the dominant forces of the central capitalist countries in their own perceived interests, why should these forces permit their reform in the interest of collective self-reliance or contribute to them if they are reformed? The only argument that would seem convincing to these forces might be that such reforms are needed to forestall really revolutionary change in the Third World —the very changes in power structures that are preconditions for alternative strategies.

The final impression is one of ambiguity between the perspectives of collective self-reliance for countries controlled by like-minded new social forces out to transform the international order, and the perspectives of collective self-reliance for countries whose dominant forces want to emerge from the crisis with their own economies in a stronger position within a basically unchanged international order.

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Recent ECLAC publications

Anuario Estadístico de América Latina 1983. Statiscal Yearbook for Latin America 1983 (E/CEPAL/G. 1313). Santiago, Chile: 1983. 749 pages. (Bilingual edition in Spanish and English.)

This edition of the *Statiscal Yearbook for Latin America*, which combines the editions corresponding to 1982 and 1983 in order to regularize its publication, contains updated information from the series maintained by the Statistics and Quantitative Analysis Division of ECLAC in its computerized data bases.

In general, it maintains the format of the tables by topics and subtopics followed in recent editions of the *Yearbook*. Part One comprises derived socioeconomic indicators (growth rates, shares and coefficients or proportions), which represent a summary overview of each area of interest and constitute a background for the use of the data in more specific analyses. This set of indicators incorporates those employed in the periodical regional appraisals of the International Development Strategy.

Part Two contains the historical series in absolute figures, which enables them to be used for a great variety of purposes. Most of the national statistical tables deal with a single topic and are arranged to facilitate comparison between countries and between these and the regional totals or averages. The only exceptions to this format are the balance of payments and national accounts tables, since these have been prepared by the countries. In the present edition of the *Yearbook* the series on national accounts at constant prices include a larger number of countries, in an effort to extend the coverage of the *Yearbook* to as many as possible of the member countries of ECLAC.

The indicators in Part One of the *Yearbook* correspond, in general, to the years 1950, 1955, 1960, 1965, 1970, 1975 and the period 1980 to 1982. When the figures are not fully up-to-date the last year available for each country has been included. Some of the indicators based on census information apply only to the years in which the respective censuses were carried out.

The statistical series in Part Two refer, in general, to the years 1960, 1965 and 1970 and to the period from 1975 onwards. Some social statistics which are not estimated on a systematic basis are included, exceptionally, for 1960, 1965, 1970 and the last year available. This system is not followed in the case of census data, which are naturally obtained in specific years. The figures for the latest years published represent preliminary values in each. case. The closing date for the incorporation of statistics in this edition of the *Yearbook* was November 1983.

El capital extranjero en la economía peruana: políticas y negociaciones en la decada de los setenta (Foreign capital in the Peruvian economy: policies and negotiations in the 1970s) (E/CEPAL/G. 1300). Estudios e Informes de la CEPAL series No. 36. Santiago, Chile: 1984. 178 pages.

The main purpose of this study is to determine the significance of foreign enterprises in the Peruvian economy, to identify the economic activities in which their presence is predominant, to analyse the behaviour of foreign capital in face of the changes that have occurred in development policy, to study the new forms of negotiation, and to define the nature of the conflicts with foreign capital.

Chapter I presents a set of indicators specifying the origin, magnitude and sectoral distribution of foreign investment, together with the share of foreign enterprises in the more pertinent economic variables. Chapter II analyses the great changes that have taken place in development policy during the last three decades, with detailed study of the mining, petroleum, manufacturing, fisheries, banking, insurance and telecommunications sectors. Chapter III studies the new forms of negotiation and the conflicts with foreign capital. In particular, it analyses the mechanisms for regulating direct investment, the new dynamism in the relations between foreign investors and the State, the characteristics assumed by the transfer of shares to national investors, the new forms of mining and petroleum contracts, and the indirect forms of relationship with foreign capital.

The analysis covers the 1970s in depth, makes comparisons with the two preceding decades, and outlines likely trends in the 1980s.

Estabilización y liberalización económica en el Cono Sur (Economic stabilization and liberalization in the Southern Cone) (E/CEPAL/G. 1300), Estudios e Informes de la CEPAL series, No. 36. Santiago, Chile: 1984. 178 pages.

The application in Argentina, Chile and Uruguay of economic policies based on monetarist and neo-liberal premises was one of the most important economic events in Latin America during the 1970s. This strategy placed emphasis on private enterprise and the functioning of market forces as engines of growth, thus displacing the model that had prevailed since the Great Depression. Thanks to its initial successes in reducing inflation and speeding up growth, it was hoped that it might constitute a model for other developing countries, but these hopes vanished after the serious reverses which it suffered later on.

Nevertheless, the doubt remains as to whether its failure was due, in the final analysis, to the unfavourable evolution of the world economy from 1980 on or to the intrinsic defects of the neo-liberal model, and whether the defects observed were due to the model itself, to the errors in the actual policies applied to put it into practice, or to the severity of the initial imbalances. Nor is it known whether or not the early successes that some such policies achieved were essentially ephemeral and were bound to create problems that would prevent the achievement of a continuing and stable process of growth.

This study attempts to answer these question by evaluating the recent experiences of economic stabilization and liberalization in the Southern Cone. In addition to describing the logic of the neo-liberal policies and the form in which they were applied in each of the three countries concerned, the study concentrates on the analysis of: a) the main results of these experiences in terms of growth, income distribution, inflation and external equilibrium; and b) the efficacy of the basic policies themselves —particularly those concerned with price stabilization, the opening-up of trade and financial liberalization.

The chief merit of the study is its comparative approach, since many explanations which seem quite convincing in the case of one country are not so in the case of the other two. The object of the study, however, is not limited to interpreting the recent economic evolution of these countries. It is directed rather to those who are responsible for or interested in economic policy who, without necessarily agreeing with the neo-liberal postulates, wish to know what lesson —both positive and negative— can be drawn from them for the design of future policies in such critical fields as price stabilization, the opening-up of trade and financial liberalization. The study ends by setting out the conclusions drawn from these experiences as regards the relative merits of the market and State intervention in the functioning of developing economies.

Fernando Rezende: **Financiamiento de las políticas sociales** (The financing of social policies) (E/CEPAL/ILPES/G. 20 and E/ICEF/TACRO/G. 1008). Estudios ILPES/UNICEF sobre políticas sociales series, Santiago, Chile: 1983. 96 pages.

This study investigates the medical assistance policy applied under the social security system of Brazil. It examines in particular the financing mechanisms used to implement it, the redistributive aspects of these mechanisms and their effect on the evolution of the cost of the said policy, and it attempts to analyse the future prospects of the system if the existing mechanisms are maintained. Chapter I contains a study of the financing of social policies, and proposes a model for the analysis of the financial limits to their expansion; chapter II examines social security and social aid policy in Brazil, with special reference to the medical assistance programme, and attempts to identify the contradictions between the intentions and the action of the government in this sector; chapter III assesses the redistributive effect of the programme, distinguishing between different types of social security services; chapter IV deals with some aspects concerning the remuneration of hospital services and the effects of these mechanisms on the cost of medical aid and on the financial situation of the social security system; finally, chapter V outlines the conclusions drawn from the foregoing analysis.

The author concludes that the future prospects of the model adopted by the social security system in Brazil do not appear to be satisfactory. If employment and wages continue to grow at lower rates than that of the gross domestic product, and if the present tax base is maintained, the increase in contributions to the social security system will be insufficient to meet the growth of demand for medical assistance resulting from the rate of urbanization.

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