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BEYOND THE INFORMAL SECTOR
Labour Absorption in Latin American Urban Economies
The Case of Colombia

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Ever since the publication of Hart's seminal paper on "informal income opportunities", the concept of the "informal sector" has played an important role in the debate regarding urban employment policies. The development strategies advocated by the ILO during the seventies led the way in this direction and the topic has almost always been included in recent national development plans.

There are several factors that explain why this concept has had such an enormous impact on Latin America. Initially, propped up by a major research effort conducted by PREALC, the informal sector concept took hold essentially because it found a friendly environment on the continent. The reason for this was that forerunners such as the concept of "sub-proletarians",⁽¹⁾ the theory of "social marginality", the notion of "marginal poles of the economy"⁽²⁾, and the co-existence of "upper and lower circuits in urban economies"⁽³⁾ had already created an analytical tradition in which Latin American nations were viewed as segmented and/or disjointed societies.⁽⁴⁾ Furthermore, the informal sector fitted nicely into the more general centre-periphery model proposed by ECLAC. In fact, after being purged

¹ See for instance, Vekemans (1969), (1970); Nun (1969) and Cardoso (1970).

² For instance, Quijano (1968; 1971).

³ See for instance Santos, M. (1975).

⁴ This should not be taken necessarily to mean that the "informal sector" is conceptually superior to some of these "forerunners". It must be remembered that the earlier versions of the concept were cast in a clearly dualistic framework. In fact, most of the research which led to non-dualistic models was originated in Latin America.

of its dualistic framework, the concept provided a valuable conceptual piece to explain the emergence and persistence of technological heterogeneity within the model. As a result, the concept has become deeply rooted in Latin American employment studies and its fruits can still be recognized in recent policy statements.

For example the introduction to the 1989 national plan to assist micro-enterprises in Colombia reads:

"Micro-enterprises constitute the most important form of social and economic articulation of low income groups and of those with either financial restrictions or limited access to the labour market", (DNP 89).

Similarly, the new Mexican programme which intends to promote the development of small and medium sized industries has assigned the micro-enterprise sub-sector a key position in its strategy to curb urban unemployment levels. A confidence based, once again, in the capacity of this sector to absorb the excess labour assumed in the "informal sector concept". An almost identical approach can be found in Perú where IDESI and the Instituto Libertad y Democracia propose and carry out major efforts to address this sector.⁽⁵⁾ Other countries have also recently followed in this direction such as: Ecuador, Bolivia and even Chile.

A frequent connection between development programmes and the policies of major international development agencies can also be observed in these cases. Currently, the informal sector and specially the micro-enterprise sector are the prime targets of large assistance programmes for employment development in the region. For example this is the case with those of USAID whose activities are defined in a recent document as follow:

"The activities in this sector (micro-enterprise) often correspond with the ILO version (rather than the Hernando de Soto version) of the informal sector, although they are normally unregistered and seldom pay taxes or are regulated" (Farbman and Lessik 1989).

⁵ Although their proposal are different in many respects.

The Interamerican Development Bank and the United Nations Development Programme (UNDP) have also adopted policies which support this "sector". In their view, promoting "informal" employment in micro-businesses is: (1) an adequate response to the employment crisis triggered by the structural economic adjustment policies of the region; and, (2) a viable road towards future economic growth.

Nevertheless, few concepts are more vague, imprecise and even misleading than this one. The sizable, but somewhat misdirected research of the past decade did not manage to produce a conceptually satisfying definition. This is serious enough, but more important, this research did not even provide much concrete evidence about the assumed potential of the "informal sector" to generate employment and bring about development.

At the empirical level, the dependence upon case studies, often with little if any linkage to broader frameworks, has made it difficult to connect the findings to patterns of macro-economic, sectorial, or even spatial changes. Consequently, the presumed role of the "informal sector" in the process of labour absorption has remained largely in the realm of a theoretical hypothesis.

Objectives and Organization of the Paper

This paper presents some empirical evidence regarding the process of labour absorption in the Colombian urban economy during 1975-88. This period is particularly appropriate for this type of analysis given the sharp readjustment experienced by urban labour markets as a consequence of the recession which bottomed-out during 1980-83. From a practical point of view, this paper has benefitted from the already assembled rich collection of data. The work done by the special mission, appointed by the Betancourt government in the early eighties to look into the employment problems of the country, provided the most valuable information. However, the contributions of several institutions such as CEDE, CIDER, DNP micro-enterprise programmes and later on PREALC have also been very important. This paper has used these materials extensively and it is clear that without them

this effort would hardly have been feasible. As the reader will notice, the paper does not question the majority of the previous findings. However, it does differ in the interpretation of those empirical findings, and most sharply in the conclusions drawn from them.

The paper has been organized into four sections. The first one is a short presentation of Colombian development trends from the early fifties to the mid-seventies. A second section follows with an analysis of the four main areas where the impact of the recession on urban labour markets is clearly visible: (1) employment levels, (2) open unemployment, (3) participation rates and (4) income. The third section constitutes the main body of the paper and seeks to test the validity of the concept itself. Needless to say, data limitations did not allow for a detailed disaggregation of the sector. This presented certain constraints in fully characterizing the contrasting roles played by the various component activities. More detailed information is needed in order to shed light on a number of issues which remain undecided or ambiguous within the context of this paper. Finally, the fourth section presents the main findings and discusses their theoretical and policy implications.

A Summary of the Findings

In summary, these findings indicate that the conventional notion of the "informal sector" falls short of providing an adequate conceptualization of the phenomena. First, the boundaries between firms and labour market segments do not coincide, a prerequisite necessary in order to conceive of informal activities as a sector of the urban economies. The use of informal labour was found not to be confined to informal firms. Moreover, in the form of temporary workers, this type of labour increased considerably within the formal sector. Second, through-out the cycle the different sub-sectors showed contrasting roles in the labour absorption process. Thus, for example, the micro firm sub-sector did not conform to the expectations derived from the conventional informal sector concept. In sharp contrast, self-employment did in fact abide to

the theory. Excess labour was absorbed by this sector and the predicted income sharing effect actually took place.

Given these conditions it is difficult to sustain the notion of "informality" as a sector (functional entity) of the urban economy. An analysis of the data from Colombia suggests that it may be more adequate to conceive of "informality" as a feature of urban production and labour processes. Informality then, may be seen as a possible response to given specific conditions. And although labour market imbalances are certainly among these conditions; decreasing profitability, high economic uncertainty, and even vertical disintegration within the formal sector may be equally or more significant.

Specifically then, one may consider that the recent increases in the degree of informality throughout the sub-continent are a result of the phenomena associated with the crisis of accumulation which has affected Latin American countries. In this scenario, informality is no longer confined to the familiar increase in the low income non-wage forms of labour. In the modern sector, informality increased through three different mechanisms; i) through the reduction of the protected core staff while increasing the temporary unprotected component of the labour force; ii) through the externalization of the labour force by expanding the "putting out systems" and; iii) by shifting a greater proportion of production to smaller firms with higher degrees of informality. Therefore, informality is present in the large modern sector as well as in the micro firm segment. However, its incidence is much higher in the latter for noticeable reasons such as: the ability to escape state policing and a lower dependence on institutional systems. Hence, informalization could hardly be considered an effective response to the economic crisis of micro firms and consequently their adjustment during the recession took one of the two following forms: (1) lower rates of firm creation and/or; (2) a regression of existing firms into the category of "family self-employment". Moreover, many of the firms that could not make the adjustment during this period just simply disappeared.

More traditional forms of informalization, such as those

resulting from the reaction of the labour force to an insufficient rate of employment creation, continued to be important during this interval in Colombia. As unemployment increased participation rates fell; and in the absence of access to a subsistence income, the labour force generated its own employment or moved back into residual labour markets. Moreover, the Colombian data suggest that unregistered micro firms which hired labour did not performed this labour absorption function during the crisis of the early eighties.⁽⁶⁾

As a whole this paper questions the existence of an "informal sector" since the various activities conventionally included in this concept reacted in sharply different ways to economic changes, and played equally different roles in labour processes. In exchange this paper proposes the idea of "informality" as a phenomenon, rather than as a sector, which may result from various combinations of structural and conjunctural factors. Essentially, these factors are those which affect either the profitability of economic activities or create labour market imbalances.

Moreover, the main message this paper wants to convey is that the informal sector concept may have outlived its usefulness. This is not to underestimate the importance that this concept has had in the evolution of our knowledge regarding urban economies in developing countries. Indeed, it has played a fundamental role in bringing into focus a number of facts and processes concerning urban and industrial development in LDC's which had for a long time remained undetected and/or misinterpreted. In this sense it has been a particularly fertile paradigm. By pointing to the heterogeneous nature of urban economies in developing countries, the idea of informality has opened the road for more realistic conceptualizations. However, new steps seem necessary and a reformulation of the causal relationship between surplus labour and technological heterogeneity, which is at the root of the informal sector notion, is a key issue that still needs to be addressed.

⁶ Exception made of the commerce sector, in which some increase in employment took place even in micro-firms in spite of falling income.

I.- THE HISTORICAL BACKGROUND

The second half of this century has been a period of rapid and far reaching transformations in Colombia. During these years, and specially during the last twenty, a significant degree of economic change has taken place in conjunction with a high average annual rate of GNP growth of 5.4%.⁽⁷⁾ The manufacturing sector increased its share from 19.4% (1960) to 22.9% (1980), while agriculture decreased from 31.3% to 22.6%, (Banco de la Republica 1975; DANE 1985; DNP 1989). A slow growth of labour demand (+/-1%) in the coffee industry and traditional agriculture, and a rapid expansion (3%) of the commercial sector increased the proportion of rural wage workers significantly. However, by the late seventies, the expansion of commercial agriculture had already slowed down and the main contributor to labour absorption in the rural areas was mixed cultivation, (Kalmanovitz 1978; Reyes et al, 1986).

These profound inter and intra-sectorial economic transformations led to an accelerated urbanization process which reversed the rural/urban distribution of the population in less than fifty years. Indeed, the 30% of the total population which had been considered urban in 1940 had grown to slightly more than 70% by 1985, (DANE 1985).

The Evolution of Employment

Employment generation was particularly dynamic during these 30 years. The labour market managed to absorb the heightened rural-urban migration, the growth of the urban population and the increased participation rates without extreme distortions of the employment or underemployment figures. Urban employment increased its share of total employment from 24% to 43%. Despite this massive growth, urban unemployment was reduced, the real value of wages (urban and rural) increased, and the coefficient of income concentration (Gini) fell in the urban sector from 0.49 in 1960 to 0.46 in 1980.

⁷ The average rate of economic growth was 5.2% in the sixties, 5.5% in the seventies to reduce to 3.4% in the eighties (DANE 1985, DNP1989)

The urban "informal sector", as conventionally defined, absorbed about 22% of the total labour force and between 50-60% of the urban labour force. This proportion was slightly higher in the larger intermediate cities than in the four metropolitan areas. The incidence of "informality" spread widely, including several manufacturing branches (food, clothing, furniture, wood), construction, retail commerce, restaurants and hotels, and personal and household services, (Bourguignon 1979; Kugler et al, 1979; Ocampo 1981; López et al 1982; Ayala 1985; Vélez, Becerra and Etter 1986).

The rate of unemployment in the rural sector which had remained around 6.5% throughout much of the sixties decreased to about 3% in the second half of the seventies. Furthermore, it was almost negligible for males (1 to 2%) affecting mostly females (9-10%), a phenomenon at least partially explained by a substantial increase in their rate of participation (11% to 21% in ten years), (Ordoñez 1983; Min.Ag 1985). In addition, rural underemployment decreased from 33% during the 1950's to 18% by 1980.

Against this background, social indicators showed steady progress. The mortality rate dropped from 10.1 per thousand in 1970 to 6.4 in 1980, illiteracy fell from 42.5% to 18.0% and enrolment in primary education increased fivefold, in secondary education 29 times, and in higher education 38 times, (Min Ag 85; DNP 89;).

Wages and Income

During the sixties real wages in the private sector increased significantly while remaining relatively stable in the public sector ⁸. In contrast, they fell consistently during most of the seventies. Initially, urban workers made the largest gains but by the end of the decade average income for rural workers was quite close to the urban level. However by 1985, in response to falling demand for rural labour, real wages fell to 80-85% of their 1978 value in agriculture, and 85-90% in cattle breeding

⁸ With a slight tendency to fall.

(Carrizosa 1986; Reyes et al 1986). Several case studies suggest that the adjustment took the predictable form of lower levels of utilization of the labour force and decreasing wages rather than open unemployment (Urrea 1976; Botero and Sierra 1981; CIDSE 1985).

Labour Market Performance

Prior to the mid-seventies two main periods with slightly different labour market performances can be observed. The first one covers the period between 1950-1968 and it is characterized by the incapacity of economic growth to offset the rapid expansion of the labour force. The second extends from 1968 to 1975 and it is characterized by rapid economic growth and important employment and social improvement.

1951-1968: Moderate Economic Growth and Rapid Labour Force Expansion.

A structural imbalance between the rapid growth of the labour force and the limited capacity of the urban economy to generate employment characterizes this period. Stated in other words, the employed portion of the working age population decreased while the rate of unemployment increased. The rate of expansion of the urban population of working age grew from 4.1% per year between 1938-1951 to 5.3% in 1951-64, but it decreased slightly to 4.7% in 1964-73. The employment situation remained relatively strong until 1961-62, but it deteriorated sharply from then onwards, (Reyes et al 1986).

The employed proportion of the working age population fell from 48.5% in 1951 to 43.0% in 1964 and to 40.4% in 1967. Not surprisingly, the rates of unemployment surged from the low levels of the late fifties (5.1% in 54' and 6.1% in 61'), to 10-11% by the end of the decade. Similarly, the urban unemployed population grew at the alarming rate of 28% in the three years between 1964 and 1967, (Reyes et al 1986).

Moreover, available information indicates that the real value of wages of the private urban sector increased from 1958 to 1963, decreased during 63-65, and then recuperated and

continued in a positive direction until 1972. For the public sector a similar trend is visible, but the decline began earlier in 1961, and persisted longer, until 1969. On the whole this was a somewhat frustrating period in which the employment situation deteriorated in spite of the favourable growth performance of the economy.

1967-1974: Rapid Economic Growth and an Improving Labour Situation.

During 1967-74 the urban GDP reached an annual average rate of growth of 6.9%. This was clearly superior to the 5.8% of the fifties and consequently led to a significant improvement of the employment situation. During that same period employment creation grew faster than labour supply, (5.9% against 4.7% respectively). This was a dramatic turn-around in relation to the earlier period when these indicators were 2.9% and 5.9% respectively. Not surprisingly, this period exhibits the lowest rate of growth of the unemployed population (3.0%) and compares quite favourably with the 28.0% of 1964-67.

In absolute terms the figures are equally impressive: the average number of urban jobs created (180.000) more than doubled in comparison with those of the previous period, (75.000). By 1974 the employed portion of the working age population had recuperated to 44.1% from the 1967 low level of 40.0%, and unemployment had fallen to around 8% (Bourguignon 1986).

Real wages increased sharply and continuously for private and public urban workers until 1971-1972. Afterwards both fell, but the fall was far more pronounced for the latter, (Urrutia 1984; Reyes et al 1986). The income share of the poorest 50% of the population increased steadily from 16% to almost 20%, (Córdova 1971; Reyes et al 1986;). The evolution of income distribution at the family level is less clear since the available data seems to indicate that the poorest 50% may have lost shares from 19.3% in 67-68 to 16.9% in 1976, (Prieto 1967; Dane 1971; 1972; Reyes et al 1986).

II.- URBAN EMPLOYMENT, UNEMPLOYMENT AND INCOME IN COLOMBIA.

From the mid seventies to the mid eighties.

1. THE RECESSION OF THE EARLY EIGHTIES

The recession of 1981-83, even if less acute than in most other Latin American countries, interrupted the progress observed during the previous period. A new growth phase did not materialize until 1984 when export earnings improved due to high coffee prices, and the various government strategies began to pay off. Colombia had entered the eighties with a positive commercial balance (+US 13 millions) and net international reserves equivalent to a full year of imports (US 5,1416 millions). The total external debt was only 1.2 times the net reserves, and 1.6 times the annual value of exports. The debt service was 14.8% and the interests 11.5% of the value of exports, (IDB 87; Ocampo and Lora 87)

Three main factors are considered to have caused the recession, (IDB 1987; Ocampo and Lora 1987; ISSAS 1988). First, a series of external shocks, which in the context of a generalized international recession, could not be easily countered. These were: (1) the collapse of international coffee prices in 1980, (2) the hardening of conditions in world capital markets and, (3) the devaluation of the Venezuelan currency.

Furthermore a slow reaction to adjust national policies to the prevailing conditions also played an important role. A combination of import liberalization, fiscal expansion and contractionary monetary policies - all of which had worked reasonably well at the beginning of the period - became a serious liability by 1982-83. Exports did not keep pace with the rising demand for imports that had been stimulated by liberalization. The revaluation of the peso and the crisis in the main Colombian markets for export commodities were undoubtedly the main factors behind the emergent external gap. Decreasing public revenues did not match expanding public investments and resulted in growing fiscal deficits. Tax cuts and evasion also figure prominently among the reasons for falling revenues. Coping with the ensuing deficit "crowded out" business investments and reinforced the

recessive pressures which had originated in the external sector.

Finally, the crisis of the financial institutions which began in 1982 accentuated the country's growing problems. Lower profit levels and a high magnitude of capital losses were serious enough problems, but this in conjunction with low levels of capitalization, and the need to rescue troubled clients, deeply disrupted the efficiency of the resource allocation system. As a result, this also affected the level of aggregate demand.

Table N° 1 shows clearly the impact of these developments upon the evolution of the rates of economic growth.

TABLE N° 1
Economic growth mid-seventies to mid eighties
Annual rate of GDP growth

Year	Total	P/capita
1974-79	5.0%	-
1980	4.1%	2.0%
1981	2.3%	0.4%
1982	0.9%	-0.9%
1983	1.0%	-0.3%
1984	3.2%	1.4%
1985	2.5%	0.8%
1986	5.1%	3.4%
1980-1985	2.2%	0.7%
1986-1988	4.9%	2.7%

Source: Banco de la Republica, Cuentas Nacionales 1950-1970 and, Dane 1970-1986.

The recessive phase of the cycle bottomed in 1982-83, and then the recuperation which started in 1984 began to consolidate by 1985. Figure 1 which shows the deviations of GDP in relation to the trend and gives an idea as to the depth of the problem.

Figure Nº 1
THE ECONOMIC CYCLE 1950-1985

Figure 1.1: NATIONAL GDP

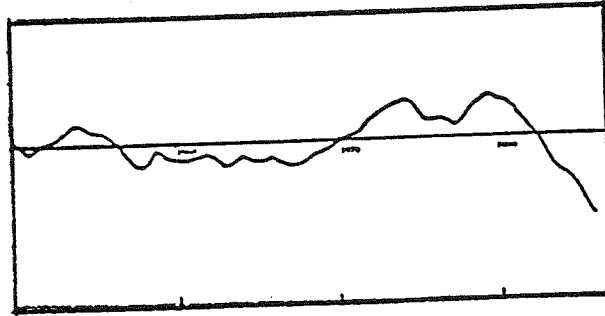


Figure 1.2: AGRICULTURE

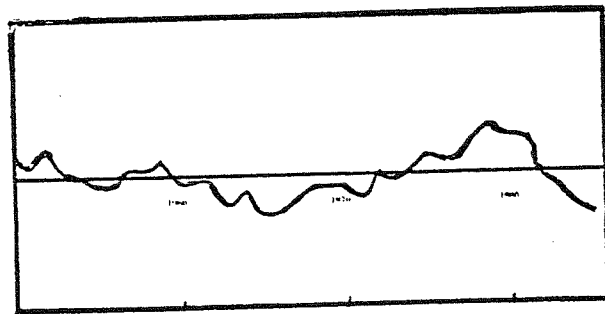


Figure 1.3: MANUFACTURING

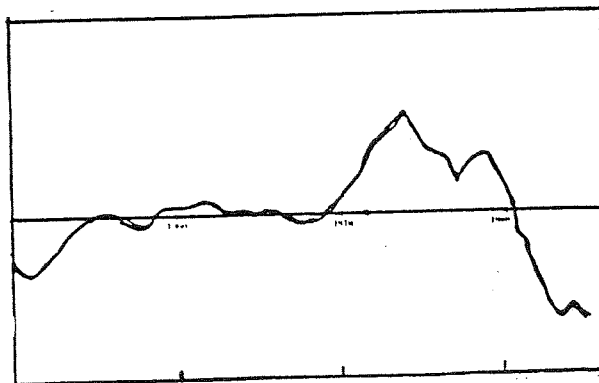
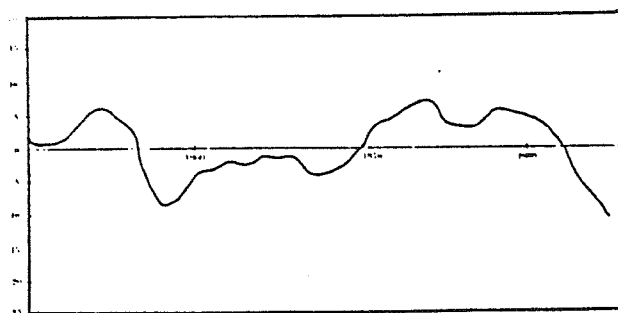


Figure 1.4: SERVICES



Source: Misión de Empleo : "El problema laboral Colombiano" in Economía Colombiana, Contraloría General de la República Separata N° 10, Agosto 1986.

2. THE IMPACT ON URBAN LABOUR MARKETS: AN AGGREGATE ANALYSIS

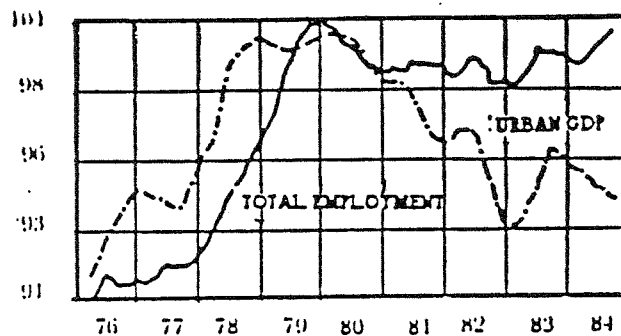
Total employment

The recession had a severe impact on the annual rate of urban employment creation. Urban employment creation fell in the four metropolitan cities from 5.9% in the late seventies to 3.3% during 1980-85, and from 5.7% to 3.7% in Bogotá during the same period. However, these figures bear only a weak relationship with the evolution of urban GDP which increased more than 10% during the second half of the seventies and decreased 7% during the early eighties.

Figure N° 2 shows that the gross domestic product and the level of aggregate employment behaved similarly until 1979-1980 but that there after differed. Initially GDP lagged one year behind aggregate employment, then they converged and rose together until 1979-1980 when they declined sharply and almost continuously until 1983. The observed fall in total urban employment was much less pronounced and occurred mostly during 1980. The level of employment stabilized between 1981 and 1984 when the initial signs of an upward trend emerged. However as it will be demonstrated later, this is only part of the story since

employment deteriorated far more than that which is suggested by the unemployment rate.

Figure Nº 2
ECONOMIC ACTIVITY AND EMPLOYMENT
1976-1985



Source: Misión de Empleo "El problema laboralibidem...."

Open unemployment

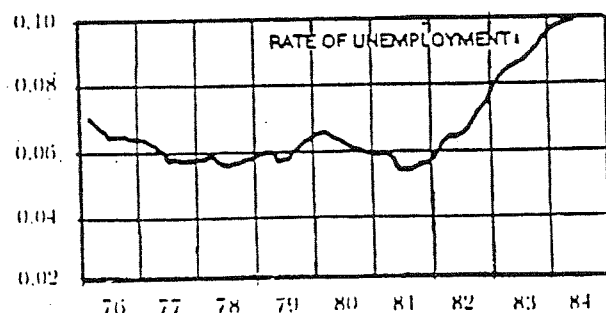
As shown in Figure Nº 3, the evolution of open unemployment rates differs to some extent from both: aggregate employment and the level of GDP. In fact, the rate of unemployment which was 9.7% in 1980 grew to 13.9 in 1985 and close to 15% in 1986. This was well after aggregate employment figures had already stabilized. A decreasing trend did not consolidate until 86-87 when economic reactivation was under way and employment was growing steadily. The levels of 1979 were only reached again in 1988, (Reyes et al 1986; Misión de Empleo 1986;).

Additionally, jobless workers remained unemployed for longer periods of time. In fact, the average duration of unemployment doubled from 20 to 43 weeks in 1980. This, combined with a duplication of the unemployment rate meant in reality a four fold increase in the "equivalent unemployment level".

Neither a growth in supply nor increasing market frictions played a major role in this process. This can be evidenced since the rate of new entries into the labour force remained unchanged

in relation to the level established during the late 1960's and the rate of short term unemployment shows erratic fluctuations. The main reason underlying higher unemployment rates during the eighties was the laying off and firing of workers from their occupations. This indicates that demand restrictions played the principal role.

Figure Nº 3
UNEMPLOYMENT RATES 1973-1985



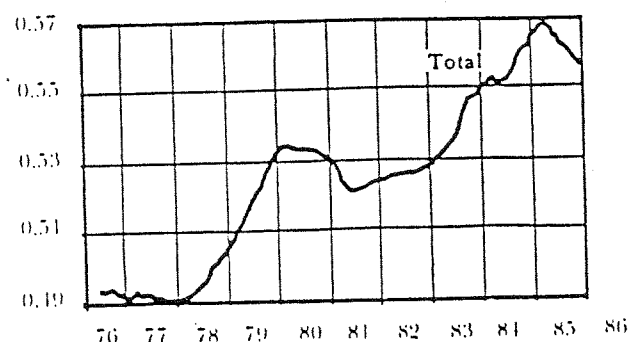
Source: Dane, Household surveys for Bogota, Medellín, Cali and Barranquilla.

By 1985, the unemployment rate reached a peak of 14% (estimated structural component was 8.0% of which: 4.0% was frictional and 4.0% non-frictional), and the cyclical component 6.0%. In 1986 unemployment fell slightly to 13.8% and more clearly in 1987 and 1988 to 11.7% and 11.0% respectively. Still, these rates were superior to those of the 1980-1982 period during which they fluctuated around 9.0%. The gap between the education profile of labour and the occupation structure of the demand was the main factor responsible for non-frictional structural unemployment, (PREALC 90).

Participation rates

A pause in the growth of labour force participation rates softened the impact of stagnant employment on unemployment rates during 80-83. In those years the rate of participation fluctuated around 51%. After 1983, the renewed pace of expansion of participation delayed the reduction of unemployment rates. In 1983 the rate was already at 54.7% and it increased continuously until 1988 when it reached 58.6%. Figure Nº 4 shows this counter-cyclical behaviour, which incidentally, was stronger in the case of women. Some econometric estimations suggest that the fluctuations in the participation rates resulted from a combination of two factors: i) demographic aspects, specially age and family structures and, ii) market imbalances and incentives. Among the latter, GDP, wage level, and unemployment had strong positive impacts upon the rate of participation. However, the elasticities for the first two factors were significantly higher (0.52 and 0.40), than in the case of unemployment (0.15), (López 1985; Londoño 1985).

Figure Nº 4
RATE OF LABOUR PARTICIPATION 1976-86



Source: Dane: Household Surveys (several years)

Income

In general, after 1976 the evolution of urban income shows a long term positive trend estimated at about 2.5%-3% a year.

(Mision de Empleo 1986). However, during this period real wages decreased between 1972 and 1977, then increased until 1985 despite the recession which bottomed-out in 80'-83'. In fact, industrial wages, for both white and blue collar workers increased significantly during the initial recessive years. From 1980 to 1982 these salaries increased annually 6.2% and 4.7% respectively. The situation turned only slightly more negative for blue collar workers during the period between 1984-1988 when wages fell at about 0.1% per year. For industrial white collar workers the situation remained positive although at a much lower level: their salaries increased at about 0.3% annually in real terms.

Real income per occupied person showed consistently high annual rates of growth for all categories during 1982-1984 with exception of the self-employed. The situation is clearly different during 1984-1988 when all categories exhibit negatives rates of real income growth: private wage workers -2.2%; public workers -1.3%; and domestic service -2.4% (PREALC 1990). The estimations of the Employment Mission suggest that the real income of the self-employed fell rapidly at 6.9% annually between 1982 and 1984. Employers have also experienced a substantial reduction of their real income throughout the whole period. The annual rates were -5.0 for 1982-84 and -3.5% for 1984-88.

In summary, during the critical years slow rates of job generation (2.8%) were combined with high rates of real income growth for labour (4.9%). The subsequent period of recuperation shows a totally different pattern of behaviour: high rates of job creation (4.5% annually) and decreasing real income for labour (-1.3% annually) (PREALC 1990).

Income Distribution

Urban income distribution improved between 1976 and 1980, and had a stronger impact at the individual rather than at the family level. A redistribution of about 5% between the highest and the lowest income strata took place at the individual level, while at the family level it reached only to about 3%. Middle income groups also benefitted to a lesser degree (Reyes et al

1986).

By 1985, individual income distribution was slightly worse than at the end of the seventies but still better than during the sixties or early seventies. The evidence concerning improvements in family income is less convincing, (Urrutia and Berry 1975; Urrutia 1984; Reyes et al, 1986). The magnitude of poverty as measured by the employed population earning less than a minimum salary; reduced after reaching its peak in 1973-75 with most of the improvements occurring during the late seventies and specially in Bogotá (see table N° 2).

TABLE N° 2
EMPLOYED POPULATION EARNING LESS THAN A MINIMUM SALARY
In percentages

Year	Bogota	Four biggest cities a)	Three intermediate cities b)
1976	41.9%	43.6%	53.6%
1977	40.7%	45.2%	50.5%
1978	29.3%	34.0%	40.9%
1979	27.1%	29.8%	40.7%
1980	26.4%	-----	-----
1981	27.4%	29.9%	39.7%
1982	24.4%	26.4%	39.9%
1983	20.6%	25.3%	38.1%
1984	19.2%	20.6%	34.6%

Source: Bermúdez y Valenzuela "Memorando Económico", Septiembre 1984.

A general decline in income differentials by education and sex took place between 1976 and 1980. The ratio of male to female income dropped from 2.1 to less than 1.7. Equally the ratio of the earnings of educated (higher, secondary and primary) to non-educated workers fell from 9.0; 3.0 and 1.6, to 4.9; 2.1, and 1.4 respectively, (Mission de Empleo 1986).

In the same manner the income differential between those with higher education and those with only secondary or primary levels fell during this period. In the first case from 3.0 to 2.3 and in the second from 5.6 to 3.5. A similar reduction in the differences can be observed between those with secondary and primary education: from 1.9 to 1.5. This progress towards less inequality tended to stagnate after 1980. By 1985 income differentials remained almost unchanged even though they continued to decrease at a slower pace in the case of gender.

Poverty

Urban poverty continued to decrease in spite of a weak process of labour absorption until 1984. It dropped three points (from 33% to 30%) during the peak of the crisis and levelled out thereafter until 1988. The phenomenon was based on an improvement of the income position within the **employed**, and specially those employed in the formal sector. The proportion of the formally employed below the poverty line fell six points from 26% in 1982 to 18% in 1984 and increase slightly to 19% in 1988. In the informal sector, the poor represented 35% until the second half of the decade when the proportion fell to 33% (1988).

Summary

During the second half of the seventies the employment situation improved steadily. Employment expanded faster than the economically active population, rates of open unemployment reached the lowest levels since the sixties, and real income increased. The process was accompanied by a reduction in all forms of income differentials: gender, education level, and sector of economic activity.

As one would anticipate, the recession of the early eighties slowed down and even halted this process. This brought about a reduction in the rates of employment expansion; higher rates of open unemployment and; a sharpening of income differentials. Some of the fine adjustments which took place in the urban labour markets are also of great interest.

- From 1980 onwards the evolution of the rate of total

employment creation deviated from the evolution of the rate of urban GDP expansion: i) first the fall of the latter was much more accentuated and, ii) second the rate of employment expansion stabilized in 82' despite a continued fall in the rate of GDP growth until 1984.

- Unemployment rates grew slower and were less severe than that suggested by the drop in the rate of employment creation at the beginning of the crisis. In contrast, at the end of the crisis they continued to grow for some time after the recuperation of the rate of employment creation.

- Notwithstanding these problems, poverty continued to be reduced during the first half of the decade and at least, stabilized during the second half. The remarkably strong performance of the formal wages was critical for this outcome during the first period, while employment and income performance of micro-enterprises stepped in after aggregate demand began to grow again in 1986-1988.

III. URBAN EMPLOYMENT: THE ROLE OF THE "INFORMAL SECTOR"

This section explores the labour absorption performance of the "informal sector". This is an issue which is rarely tackled at the empirical level despite its crucial importance. The period I used for this analysis was the late seventies and eighties and it is of particular interest because it provides an opportunity to examine the response of the "sector" during different phases of the economic cycle.

The subject is important because of the wide range of theoretical and policy implications attributed to the role of "informal economic activities" in the labour processes. First, labour absorption is, at least in theory, the primary function of the "sector". Second, on the performance of this function rests the concept of a single sector which otherwise would be considered a heterogeneous collection of activities.⁹

⁹ At least in the most influential analytical frameworks proposed for the informal sector.

Sub-section 1 proposes a working definition of the "sector" and sub-section 2 provides some background information on the magnitude, importance, and main features of the sector in Colombia. Finally, sub-section 3 contains the analysis used to test the above mentioned hypothesis.

1. A WORKING DEFINITION OF THE "INFORMAL SECTOR"

Papers concerning the "informal sector" regularly begin with a discussion of its conceptual definition. This is already quite indicative of the persistence of a number of unresolved ambiguities. Several authors have noticed these difficulties and discussed them at length making this task here unnecessary, (Mazumdar 1975; Bienenfeld and Godfrey 1976; Elkan 1976; Breman 1976; Sethuraman 1976; Sinclair 1978; Moser 1978; Bose 1974; H. and V. Joshi 1976; Kanappan 1977; Papola 1981;).

However, it must be recognized that the difficulties go beyond the existence of several definitions. Each of these definitions entails a different interpretation of the role of informal activities in the development process and consequently inevitably lead to different proposals for economic change. Therefore, testing these relationships can not be done without reference to a specific interpretation. The brief conceptual review presented below intends to make this choice explicit although it has no intention to settle either the definition, or the conceptual debate. At this stage, given the purpose of the paper a working definition is sufficient.

Charting the field of conceptual definitions

Leaving aside the initial and ill assumed identification with poverty, every definition has been invariably based on some form of conceptual bi-polarization. The most important of these refers to either different types of economic units or to labour markets segments. (Raczynski 1977).

Several criteria have been used to classify the different sectors of economic activities:

- i) the distinction between "modern and traditional units" makes reference to the co-existence of different

technologies and production models within the urban economies. Although initially important, this type of distinction was in fact superseded by the formal/informal dichotomy (Papola 1981).

ii) separating "organized and unorganized" sectors is probably the most commonly used. The first comprises large firms operating in oligopolistic markets selling their products to middle and high income groups and using capital intensive imported technology. In contrast the second contains a large number of small producers which operate in highly competitive markets, sell mostly to low income groups, and use labour intensive indigenous technology (ILO 1972; H. and V. Joshi 1976).

iii) yet another way of distinguishing the sectors stresses the nature of their relationship with the state in the "registered vs unregistered" dichotomy. The latter although lawful operate outside recognized legal and regulatory frameworks, (De Soto 1986).

iv) translating the informal and formal dichotomy into specific modes of production has been a feature of Marxian analysis, (Mcgee 1973; Bienefeld 1976; Bose 1974). Concepts such as "petty commodity production" or "pre-capitalist production", are probably the ones most used (Moser 1978; Portes 1988).

v) more neutral distinctions still linked to the previous approach are "upper and lower circuits" or "firm centred vs bazaar economy". Both, however, have little more than descriptive power (Geertz 1963; Santos 1975).

The labour market perspective emphasizes the existence of two market segments and, as usual, several ways to distinguish between them has been proposed. Leaving aside the "primary vs secondary" labour market hypothesis which has seldom been used in LDC's (Doeringer and Piore 1971), three main versions can be mentioned:

-A segmented labour market approach in which only part of the labour force is protected by formal recruitment norms

and procedures and has legally regulated wages and working conditions (Mazumdar 1975).

-Marxist approaches are based upon the concept of a relative surplus population and its relationship with capitalist accumulation and reproduction processes. However, Marx's distinction between the active workers and the reserve army does not lend itself easily to construct a model of the formal versus informal dichotomy (Roman 1988). Probably the most interesting of the various attempts that have been made to re-conceptualize the notion of the "marginalized masses" is the one which conceives of these masses as a dysfunctional part of the relative surplus population (Nun 1969).

- Distinctions between labour segments on the basis of their different relation to production has been mainly used by neo-Marxists. It has also been used by others which are less clearly linked with the Marxist theoretical matrix. A dichotomous approach stressing the wage vs the non-wage sector is the most commonly used and often further distinctions are made within these broad sectors. Within the wage sector for instance, distinctions are made between the labour force of the monopolistic and competitive units. In the same manner, the non-wage sector is broken down into several subgroups (Lomnitz 1977; Moser 1978; Birbeck 1979; Peattie 1980). After criticizing dichotomous simplifications, a more complex model which distinguishes among four different forms of social relations to production was proposed by Harrod (Harrod 1980).

The variety of conceptual paradigms

Most informal sector definitions are based on the concept of a heterogeneous cluster of economic activities which are glued together into a sector and fulfil some sort of economic function. Consequently, the differences among the existing definitions is a result of the various perspectives on the specific forms of integration of "labour" and "production units" as well as the economic role assigned to the "sector".

On this basis three main conceptual models can be distinguished: i) Marxian models based on the concepts of marginal masses and their articulation to modes of production; ii) a neo-liberal model based on the state-market for both labour and firms relations and, iii) a stream of neo-classical and structuralist models centred on the concept of segmented markets and technological heterogeneity.

The Marxian approach: From Marx to the marginal masses and their articulation to modes of production.

The traditional Marxist approach to surplus labour populations is not particularly adequate to address the so called "informal" sector phenomenon in LDC's. Indeed, according to Marx, capitalist accumulation constantly produces a surplus labour population in relation to its exploitation needs. This is the notion of an "industrial reserve army" as a condition to the existence of the capitalist mode of production. This concept of an "industrial reserve army" in effect liberates the system from natural population growth restrictions and other social barriers that could limit expansion.

However, it is clear that equating the "industrial reserve army" with the "informal sector" stretches the former concept beyond its original meaning. Marxist leaning authors have therefore searched for new conceptualizations justified by what they see as the specificity of peripheral capitalism. Two attempts are of particular interest: i) the concept of marginal masses as the appropriate designation of a relative surplus population under monopolistic capital in the periphery and, ii) the concept of subordinated pre-capitalist or transitional modes of production articulated with the dominant capitalist mode.

The concept of marginal masses

Developed by Nun as a marxist alternative to the theory of social marginality which became popular in Latin America during the mid-sixties, the concept of marginal masses reformulates the relationship between the "industrial reserve army" and the concept of a relative surplus population. According to Nun the

former may be considered the sole component of surplus population only during the competitive phase of capitalist development. In the monopolistic phase, the relative surplus population encompasses also a dysfunctional part: the marginal masses (Nun 1969).

In the latter phase, part of the population becomes redundant. They may play the role of an "industrial reserve army" but they are not strictly essential for monopolistic capitalism.¹⁰ The components of the marginal masses range from the openly unemployed to the majority of those working in low productive activities and even part of those employed in the industrial competitive sector. The existence of these other sectors makes it unnecessary for the "industrial reserve army", defined as the surplus population in relation to the monopolistic sector, to be openly unemployed (Nun 1969).

The articulation of modes of production approach

In contrast to the former, this approach views the informal sector as an essential ingredient of peripheral capitalism. It results from the insertion of the segmented labour market model into the conceptual "mode of production" framework. According to this approach in this system pre-capitalist activities are never totally destroyed. However, they become subordinate to the dominant monopolistic mode of production and play an important role in the process of capital accumulation.

According to this perspective peripheral economies can be said to be composed of a capitalist sector which is tightly integrated into the international economy and to a variety of pre-capitalist modes, each of these is then transformed in a particular way by its relation to the dominant economy. These subordinate modes are preserved because they help circumvent the constraints which hamper classical capitalist strategies from attaining high values of surplus extraction in contemporary peripheral economies (Janvry and Garramond 1976).

The key to them successfully fulfilling their function

¹⁰ In contrast to the competitive phase when the industrial reserve army is a fundamental component of the system.

resides in their capacity to lower the costs of the reproduction of labour by producing low cost goods and services (Portes 88). Because of this, it is then possible to achieve an above subsistence wage level in the formal sector which coincidentally is only a fraction of that paid in the industrial countries. Therefore, they contribute to capital accumulation in the monopolistic sector by (self) exploiting labour (Raczinsky 1977; Portes and Walton 1980;).

The exploitation of informal workers is possible since they have only verbal contractual relations and labour regulations are not applied. The most vulnerable segments of the society: women, children, illegal immigrants, ethnic minorities etc., are quite often the prime target of this exploitation (Bromley 1984). In addition, this market is a cheap flexible source that can help to either expand or reduce employment in the formal sector in response to given economic cycles.

A particular version of this paradigm, the "petty commodity approach", was popularized by Moser during the seventies. Identified as a transitional mode, petty commodity production stands between non-capitalist and capitalist modes of production. Conceived as a counter proposal to the simple dualistic interpretation of urban economies this approach seeks to stress the historic and exploitative nature of the relationship between the so called formal and informal sectors economic activities (Moser 1978).

The petty commodity approach also represents an attempt to assess the potential contribution of the informal sectors activities to development. The conclusion is not very positive since the sector is largely conceived as one which is unable to evolve, incapable of autonomous growth, and leaking the benefits attained through improved productivity to the formal sector (Moser 1985).

The neo-liberal approach: The economy and the State

In this approach the informal sector is conformed by "unregistered" economic activities and fuelled by an "unprotected" labour force that finds alternative employment.

Excessive and badly conceived state intervention excludes formalization because of the artificially set high costs (taxes, registration, social security, etc.) and institutionally created labour market rigidities (De Soto 1986).

Within this context, "informality" implies greater flexibility since minimum wages, working condition regulations and lay off barriers do not apply. However, the "informal" option brings about its own set of problems given the inadequate rules and regulations that are designed to mainly suit the large scale sector and which limit access to institutional resources. On the other hand registration and growth constitute self-defeating strategies since they imply renouncing the very advantages which make these activities feasible.

The informal sector and the unlimited supply of labour: a stream of neo-classical and structuralist models

In this approach the "protected and unprotected" segments of urban labour markets coincide with the "organized vs non-organized" classification of economic units. Therefore, the labour force of the formal sector can be said to consist of a set of firms protected by barriers to entry and costly legal norms and in which, above market equilibrium and institutionally determined wages are paid.

The informal sector is understood as a heterogeneous set of occupations or small scale economic activities that have few or no barriers to entry and that are manned by an unprotected labour force whose wages/income is flexible. Their wages are below the market equilibrium and fluctuate with the magnitude of the labour surplus. The competitiveness of the sector is based upon the compression of labour costs and the owner's profits (Cartaya 1988).

Therefore the "informal sector" is supply determined meaning that the employment level in the sector depends upon the magnitude of the urban labour surplus. Using this framework as a basis different schools of economics have developed specific models.

Neo-classical approaches

The conventional neoclassical labour market model assumes that given flexible monetary wages, demand and supply must simultaneously determine real wages and levels of employment. This is hardly an adequate analytical instrument to approach the informal sector. In fact the Lewis-Ranis-Fei model lacked a satisfactory explanation for high rates of urban unemployment before the development of the Harris-Todaro migration model. Until then, wage rigidities in the face of a rapidly growing population and labour force constituted the main line of defence.

As formulated by Lewis more than thirty years ago, the unlimited supply of labour model was meant to provide a rationale for the urban-industrial development policies of LDC's. It was aimed at showing that the existence of a large reservoir of labour in rural areas could be a positive advantage in developing a modern, highly productive urban sector. Furthermore, given full capital re-investment, neutral technical progress, and constant urban wages the rural reservoir could be speedily depleted. Eventually, a point would be reached at which labour would cease to be abundant, wages would start rising, and increases in the capital density would be justified (Lewis 1954).

Subsequent developments of this model focused on policy errors to explain its failure to realize these predictions. These policy errors accentuated the difficulties to absorb the "labour glut" generated in the process of economic growth. High levels of subsidies to capital and above equilibrium rigid wages induced a capital intensive bias in the choice of technology. In this situation, traditional subsistence activities would persist longer than expected but they would eventually be absorbed by the modern economy. In the meantime, given its wage flexibility the sector would constitute a buffer against cyclical variations (Lewis 1954; Ranis and Fei 1961; 1962; Mazumdar 1979).

Adding to this basic model Harberger conceived of migration in LDC's as related to the existence of a protected sector with rigid wages. In his model rural to urban migration would persist as long as the migrant's supply price was lower than the wage (demand price) in the protected sector (Harberger 1971;).

Therefore high and rigidly protected wages simultaneously stimulate migration and hamper its absorption into the protected working population. The majority of the surplus labour thus generated, not having access to income transfers or unemployment benefits, has to either self-generate its occupations, or accept lower wages in the unprotected sector. In this sector downward flexible wages and higher costs of access to capital result in technological backwardness and low labour productivity.

Consequently, open unemployment exists because the supply of migrant labour is too large and that restricts the attainment of a point of equilibrium in the level of wage prices, (Harberger 1971; Riveros 1983; 1984). This situation is quasi-involuntary since it is caused by migrant labour supply prices that are lower than the rigid wages of the modern sector, but higher than those wages offered in the unprotected sector. Job seekers can always work in the unprotected sector if they accept the going wages in that sector (Harberger 1971;). In the long run supply price and protected wages tend to converge. The rationale behind this is that the migrant supply price would tend to rise overtime as migration proceeds given that Harberger rejects the zero marginal product hypothesis in agriculture.

The Harris-Todaro model arrived at similar conclusions in a slightly different way, it emphasized the role of large rural-urban wage differentials to attract excessive migration. Migration in this model tends to equalize the discounted present value of the expected net rural and urban income stream over the migrant's time horizon rather than the wages themselves.

From this point of view, the migrant's decision is rational despite the high unemployment rates in urban areas since: i) large wage gaps make long-term expected income gains for rural-urban migrants quite large even if the waiting period to obtain a job in the protected sector is fairly long and; ii) the probability of being selected for a job in the protected sector increases with the time of residence in the city (Harris and Todaro 1970; Todaro 1976; Stark 1984).

When the resources which finance the waiting period run out, migrants must generate their own employment or accept low wages

and poor working conditions in the unorganized sector. As it was later clarified by Todaro himself, this does not mean that migrants do not earn any money in the unprotected sector while searching for a job (Todaro 1976).

The model implies that the mis-allocation of labour (between the urban and the rural economy) caused by a large rural-urban wage gap is a crucial factor in determining the size of urban surplus labour. The model poses a serious question regarding the effectiveness of Keynesian approaches to urban employment policies. In the absence of rural/urban wage convergence they would result in more migration rather than in less unemployment (Todaro 1976).

Structuralist approaches

The structuralist approach comprises a set of models based mostly on post-Keynesian economic analysis, although other elements can also be found in some specific versions. Given its relevance for Colombia the model which was briefly presented here corresponds to that version which was developed in Latin America. It has been developed mainly by PREALC but it also incorporates some of the elements initially developed by the CEPAL and ILO.

In contrast to the neo-classical approach the structuralist model assumes that surplus labour is not a result of a policy induced labour saving bias produced by the choice of technology. On the contrary, it contends that the level of employment is determined by production schedules (in terms of products and quantities) since the range of available technological choice is extremely narrow and exogenously determined.

CEPAL's model of structural heterogeneity is therefore a key component and the starting point for understanding the concept of the urban labour market. Unemployment is related to the penetration of industries in LDC's by exogenous production techniques which are characterized by a high capital density and fixed proportions of input combinations (Barros and Grossman 1971; Stewart 1975).

Despite totally different factor endowments peripheral economies are forced to use these production techniques because

of their lack of operational alternatives. Furthermore, social and private evaluations tend to perpetuate this bias. These production techniques would be considered to yield the highest profits among the alternate modern techniques as long as marginal labour productivity in the "non-modern" sectors is assumed to be zero or very low. Under these conditions, the pattern of investment that arises tends to generate substantial technological unemployment by displacing labour from the less productive sectors (Standing 1984; Rodríguez 1984).

In a nutshell the model argues that given an increase in capital efficiency, along with greater technological progress and the absence of alternatives; the exogenous accumulation of LDC's results in large scale capital intensive investments which cannot absorb the rapidly growing labour supply (Rodríguez 1984). Those left out of the fixed number of job opportunities in the modern (formal) sector must generate their own sources of income. Labour in the modern sector evolves into a protected segment by a combination of state and trade union's initiatives, and the desire of the firms to retain and stabilize core staff. At the same time the wage rate in the sector becomes a function of high levels of labour productivity and is set far above the true scarcity value of labour. Outside this modern sector, an unprotected (informal) sector develops whose magnitude is essentially supply determined and where earnings depend upon the size of the surplus labour in the economy.

Therefore, the so called "informal sector" emerges from the impact of successive modernization waves in a structural context characterized by large inequalities and a rapidly growing labour force (Tockman 1976; 1978; 1980; PREALC 1983). Unlike the neo-classical version, the structuralist approach considers surplus labour to be structural rather than policy induced. A Todaro-like migration rationality ensures the persistence of the urban "informal sector" but it does not determine the magnitude of the surplus.

Conclusion

As it has already been demonstrated, the concept of the

informal sector has found a place in most urban economic models and continues to influence policies despite repeated questions concerning its relevance and empirical validation (Bremner 76; Sinclair 78; Papola 81). In fact, the concept's extreme resilience may be at least partially related to the remarkable flexibility it derives from the co-existence of such a wide range of definitions.

Within this broad spectrum, the PREALC-ILO interpretation seems to be the most adequate for this paper (PREALC 1978). Several reasons can be mentioned in support of this choice, but the following three are the most important. First, the PREALC version has been without a doubt, the most influential in Latin America from both the policy and the analytical point of view. Second, the approaches based upon the concept of unlimited supply of labour have more practical relevance given the persistence of employment problems in the region. Third, the use of this definition also ensures a continuity of the research efforts that are on-going in Colombia. Most Colombian research analysts currently working in this area, (López 1986; Ayala 1985; Ayala y Rey de Marulanda 1978; Ramírez 1982) have adopted similar if not identical definitions. Using similar definitions has enormous practical advantages for utilizing previous data compilations and results, and thus permitting a broader and longer term perspective.

In accordance with this definition the following activities are considered as components of the "urban informal sector":

- Employers, employees, and workers of micro-enterprises,
- Self-employed, excluding professionals and technical personnel;
- Household service and occasional workers;
- Non-remunerated family workers;

Normally, the cut off point suggested by PREALC to define microenterprises is a maximum of 5 workers. However, in the case of Colombia this is not possible since household surveys set the threshold at 10 workers. In practice this is a minor discrepancy which does not affect the essence of the definition since the 5-9

worker size is a small portion (less than 20%) of the less than 10 group.

2. RELEVANCE AND CHARACTERISTICS OF THE "INFORMAL SECTOR"

The sector's share

If we accept the previous definition, in 1984 the "informal sector" accounted for 55% of total employment in the major metropolitan areas (Bogota, Medellín, Cali y Barranquilla) and 63% in the six intermediate sized cities. If we consider both groups of cities together the sector accounted for 57.9% of total employment, (Vélez, Becerra and Etter 1986). Using the estimates provided by PREALC for 1988 (on the basis of data provided by DANE for seven cities): 56.4%. in 1988, 55% in 1984 and 51.8% in 1982, it is possible to conclude that for the ten cities selected the share of the informal sector might have reached around 59%, which is slightly above the 1985 figure. ¹¹ Finally, data elaborated by PREALC indicates that the relevance of the informal sector for the seven major cities grew slowly but continuously between 1982 and 1984 (from 46.6 to 47.7%) and from 1984-88 (from 46.6 to 50.2% in 1988).¹²

Out of this total, 82% of the employment was concentrated in the three main sectors: commerce, services and manufacturing. Commerce, including retail, hotels and restaurants exhibited the highest degree of "informality" in the metropolitan areas: 76% of the employment was located in units with less than 10 workers, 66% of the employment was located in units with less than five workers and 29% were considered self-employed, (López 86). The

¹¹ Taking into account that the informal sector seems to be consistently larger in those cities not included in PREALC estimations. In any case, PREALC (1990) data for 1984 is slightly below the estimation by Vélez et al. (1985), for the same year. The latter is closer, in fact almost identical to the estimation by López (1986) for the employment mission.

¹² Differences are due to a number of reasons. First, the data from Prealc correspond to household surveys conducted in different months (June) that those used by López (September). Second, López data is based on the four major cities while PREALC data is based on the seven major cities. In this last case figures for 1982 are estimations based on the data for 1984.

share of "informality" in commercial employment was even higher (79%) when the ten largest cities were considered together, (Vélez, Becerra and Etter 1986). Services, with 56%, 51% and 35% respectively in the metropolitan areas, was also found to be a highly "informalized" industry.

Finally, informal manufacturing is not far behind services: 42% of the sectorial employment is provided by firms with less than 10 workers and 33% by firms with less than 5 workers, (López 86; Vélez, Becerra and Etter 1986). Most of this informal production is concentrated in clothing, leather, food, wood and furniture industries.

The following table shows the relative importance of the three components to the total and to the main sectors in the four major cities. This composition does not change much when the ten cities are considered together. The importance of firms with 2-10 workers is clearly higher in manufacturing, while self-employment is high in transport and highest in domestic services (Vélez, Becerra and Etter 1986).

TABLE Nº 3
RELATIVE IMPORTANCE OF COMPONENTS OF THE INFORMAL SECTOR

SECTOR	Four major cities, 1984			
	TOTAL	5-10 WRKRS	2-4 WRKRS	INDEPENDENTS
Manufacturing	42.9%	9.4%	21.6%	11.9%
Construction	58.4%	9.3%	27.7%	21.4%
Commerce/Hotel	75.8%	9.8%	36.6%	29.4%
Transport/Com.	51.6%	3.0%	14.6%	34.0%
Serv. to Firms	56.5%	8.5%	25.5%	22.5%
Household Serv.	93.5%	5.9%	14.2%	73.4%
TOTAL	55.6%	7.5%	26.3%	21.8%

Source: Elaborated with data from López 86. Less important sectors have been excluded.

Characteristics of the informal labour force

Contrary to what is normally assumed, the characteristics of the population employed (four metropolitan areas were

analyzed) in the informal sector are quite similar to those of the formal sector. In fact, if we exclude domestic service both sectors show an almost identical gender composition: (67% and 65% of males), marital status (58% and 57% of married workers), family position (49% of head of families in both cases), years of residence in the city (22% and 21.5% were recent migrants).

Sharper differences are visible in age structure and level of education. There is a larger proportion of younger and older workers in the informal sector, (13% vs 4.0% with less than 20 years and, 16.9% vs 9.8% with more than 49). In the case of education the differences are even stronger: 52% of the workers of the informal sector have only primary or no education, against 27.1% for the same group in the formal sector. (López 86; Vélez, Becerra and Etter 86;).

In conclusion, the workers of the "informal sector" are less educated, live in greater proportion in smaller cities and/or low income neighbourhoods, are older and less likely to be head of families. Contrary to usual perceptions, variables such as urban/rural origin, gender, or time of residence in the city, have little or no independent discriminatory power. (Vélez, Becerra and Etter 86).

Differences in income/wages and affiliation to social security exist, but they are less striking than it is usually assumed. The percentage of workers earning less than a minimum salary is 32% in the micro-enterprise sector and 17% in the formal sector. The situation is far worse for the self-employed, among which 50% earn less than the minimum level, (López 86)

The average income for informal sector workers is about 60% lower than in the formal sector, but this difference is not necessarily determined by the sector of employment. If for the sake of analysis we exclude domestic service the average for the informal sector increases 14%. Having done this we then see that there are other variables that seem to have a stronger explanatory power than just that of the sector. Among them, other variables such as education levels and age differences appear to be clearly responsible for most, if not all of the observable differences. Indeed, education and age have positive partial

correlation coefficients of 0.44 and 0.22 with the level of income respectively, (Vélez, Becerra and Etter 1986).

The importance of human capital variables had already clearly emerged in previous studies of Colombia. Kugler et al, for instance, demonstrated using national data, that a human capital hypothesis could explain average income differentials of the order of 45%, (Kugler, Reyes and Gómez 1979). Besides, Uribe-Echevarria has shown that income differentials are not confined to "formal-informal" distinctions. There are large income differentials in favour of bigger firm sizes within the formal sector (+9 workers) and they grow with the level of education. This means that income differentials for the unskilled workers between the "informal firms" and the next "formal size" were very small and not always in favour of the latter, (Uribe-Echevarría 1980). A similar result was reported by López, (1982).

3. INFORMAL SECTOR AND LABOUR MARKETS: A DISAGGREGATED ANALYSIS

Three informal sub-sectors have been distinguished: i) the micro-enterprise sector, ii) the self-employed (excluding professionals and technician) and, iii) household and domestic services in general. The wage sector, largely representing the "formal segment" has been included to provide a more complete picture of the labour market during this period.

The evolution of employment and the economic cycle

Wage workers

The 1976-85 figures leave little doubt about the relationship between the level of wage employment and the variations in the growth rate of the urban GDP. The Employment Mission obtained a very good fit for the following regressions:¹³

¹³ Regression 1 was estimated by ordinary least squares, and regression 2 using the Koyck method. The coefficients shown in this case are the long term ones.

1. $E_w = -1.3 + 0.98 \text{ UGDP} + 0.13 \text{ Wg}$	$R^2 = 0.93$
$(10.7) \quad (2.8)$	$DW = 1.20$
2. $E_w = 0.11 + 1.04 \text{ UGDP} - 0.18 \text{ Wg}$	$R^2 = 0.98$
$(4.0) \quad (0.7)$	$DW = 1.91$

E_w = Wage employment;

DP = Urban gross domestic product lagged one year;
(excluding agriculture and mining)

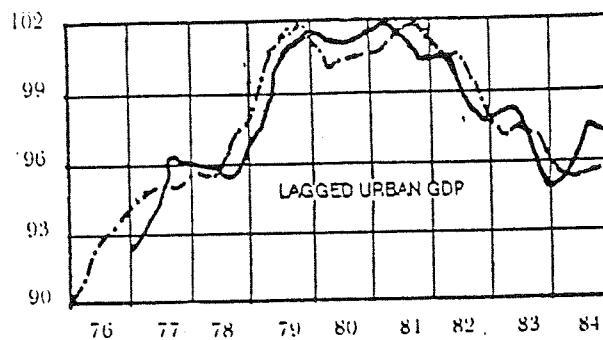
Wg = Real salaries

Wage levels have some, but rather small impact upon wage employment levels. With all possible lagged effects taken into consideration Londoño has estimated the employment-salary elasticity to be close to -0.2 or -0,3. Therefore it is reasonable to conclude that:

- i) the level of wage employment during the period was basically determined by the level of economic activity,
- ii) the impact of the level of economic activity takes place in a short time and is quite considerable,
- iii) wage employment has a clear pro-cyclical behaviour.

The goodness of fit obtained is very significant since the employment and GDP series came from totally independent sources of information. The first was obtained from the quarterly Household Surveys of the DANE, and the GDP from the National Accounts (Quarterly estimations) of the Banco de la Republica. Figure N° 5 shown below, is a clear representation of the nearly perfect fit between the level of aggregate demand and wage employment level.

Figure Nº 5
 Economic activity and wage employment
 Four metropolitan cities



Source: Londoño, J.L. "La dinámica laboral y el ritmo de actividad económica: un repaso empírico de la última década" en Ocampo, J.A. y Ramírez, M., (eds) "El Problema Laboral Colombiano", Bogotá, SENA, DNP, CGR, 1987.

A similar analysis by sectors (Manufacturing, Construction, Services and Commerce) reveals that only Commerce deviates from this behaviour. Wage employment in this latter sector (Commerce + Hotel + Restaurants) seems to be more independent from the rhythm of economic activity. The employment-product elasticity of this industry is only about 0.21 in contrast with manufacturing, construction and other services, all of which have higher employment-product elasticities (1.01; 1.09; 0.87; 1.06; 0.74).

At the same time, the evolution of real wages in the commerce sector indicates that some forms of income sharing may have taken place in the most critical years. The real value of wages decreased almost continuously to an index of 96.6 in 1986 (1982=100), while it increased in most other sectors. Most notably, the index was 110.1 for industrial wages in the same year.

A very important change in the structure of wage employment during the early eighties is a consistent increase in the share of temporary employment. After 1982 this phenomenon has been particularly impressive in the industrial sector, to the point that practically all new employment until 1985 was temporary. However, a similar process took place during the employment

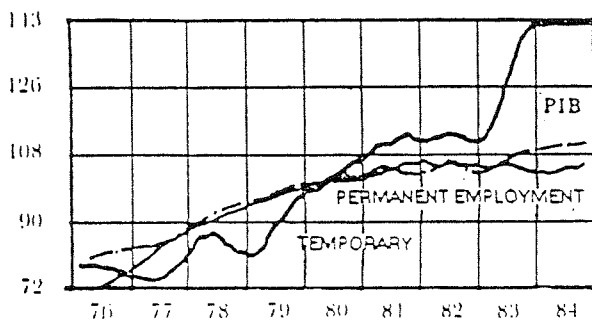
expansive phase of 1979-80. This suggests a backdated strategy that was deepened and made more evident by the onset of the recession.

This also suggests that the increase in the number of those hired temporarily was strategically directed in order to gain greater flexibility and make the necessary adjustments in the quantum of labour inputs. This is of course reasonable behaviour when high levels of uncertainty prevail and profit rates are decreasing.

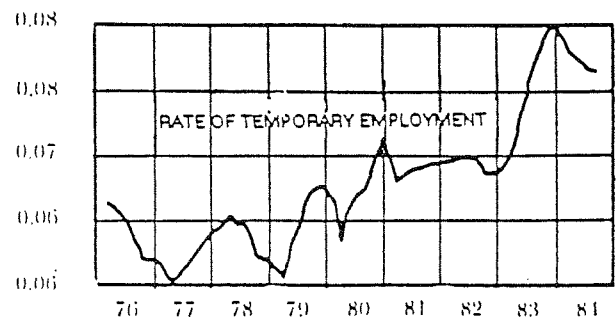
Figure Nº 6

EVOLUTION OF TEMPORARY EMPLOYMENT

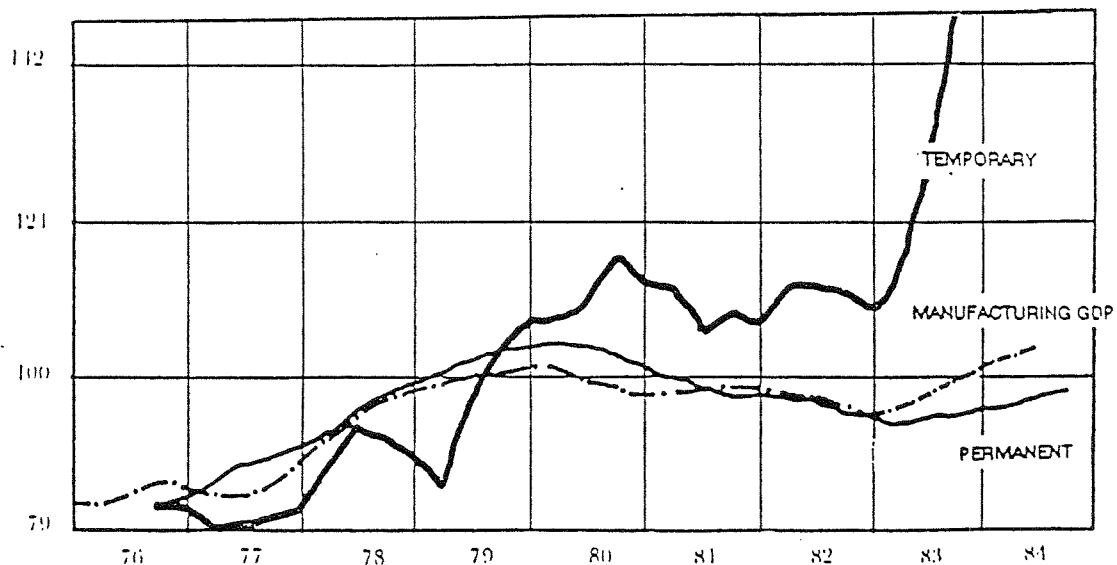
6.1 TEMPORARY AND PERMANENT EMPLOYMENT



6.2 RATE OF TEMPORARY EMPLOYMENT



6.3 PERMANENT AND TEMPORARY EMPLOYMENT IN MANUFACTURING



Source: Misión de Empleo.....ibidem

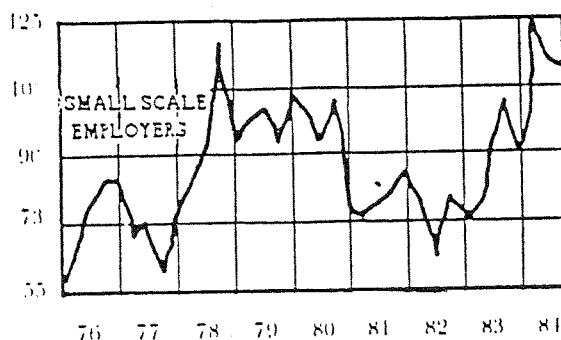
The micro-enterprise sector

Although, the data for employment in the micro-enterprise sector can not be separated from the aggregate figures until 1984, it is almost certain that the pattern observed for the latter also describes its behaviour. Representing at least one third of the wage employment, a counter or a-cyclical behaviour of employment in the micro-enterprise sector during the recession would be noticeable in the aggregate figures. The goodness of fit obtained in this latter case indicates that such behaviour is highly implausible. This picture is reinforced when we contrast the evolution of small scale employers to the economic cycle. The Employment Mission characterized this relationship in the following manner:

" The (evolution of) small scale employers has a tight correlation with the economic cycle, to the point that it may be considered one of its best indicators: it declined strongly during the small (1977), and big (1980-1983) recessions, and grew rapidly during the ensuing recuperation of the economic activity".
(Misión de Empleo 86).

Figure N° 7 shows the evolution quite clearly: after the fall experienced in 1977, small scale employers reached a high level in 1978, then declined later on in 1983 before initiating a new expansive cycle. However, in contrast to the wage sector no lags in relation with the economic cycle are observed.

Figure N° 7
EVOLUTION OF THE NUMBER OF MICRO-EMPLOYERS
INDEX 1980 =100



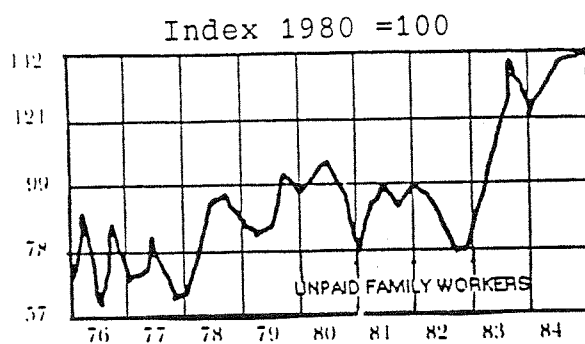
Source: Misión de Empleo "Informe Final" 1986.

Data for the period 1982-1988 tends to confirm this conclusion. According to PREALC between 1982-1984, at the moment the recessive phase was starting to create massive unemployment, the micro-enterprise sector decreased its participation from 20.3% to 19.8% of the urban labour force while self-employment increased from 26.3 to 27.9%.¹⁴ On the contrary, data for 1984-1988 indicates that the employment share of micro-enterprises increased during the recuperation (from 19.8% to 23.5%) while self-employment lost again some importance in the labour force (from 27.9% to 26.7%).

The evolution of unpaid family workers, whom we can safely assume work mostly within micro-enterprises, reaffirms the same picture about a most likely pro-cyclical behaviour of micro-enterprises. The fact that they stagnated rather than decrease during the recession can be easily explained since paid rather than unpaid workers were likely to be the target for lay-offs. They increased sharply at the beginning of the expansive phases when new units were created and levelled off afterwards probably because of supply constraints. In fact, the annual rate of growth of unpaid family labour in seven cities jumped to 18.7% in 1982-84 and fell to 1.1% in 1984-88 (PREALC 1990). It is important to consider that the overall rate of employment creation in the same cities was 2.8% in 1982-1984 and 4.5% in 1984-88.

Figure N° 8

EVOLUTION OF UNPAID FAMILY WORKERS



Source: Misión de Empleo ... ibidem

¹⁴ Obviously 1982 and 1984 are not the most appropriate years to capture the impact of the recession. In fact, the employment situation improved only slightly in 1985 and more firmly only in 1986. Therefore, if anything, PREALC figures may quite likely underestimate the changes.

Finally, the evolution of real wages also supports the contention that no significant increase in the micro-enterprise share of the wage workers took place during the recession. In fact, real urban wages continued to grow at an average annual rate close to 3.0% during the entire period of 1978-1983. Given the large difference in average salary (2 to 1 in favour of the formal sub-sector), a re-structuring in favour of the "micro" sector would have almost certainly brought average salaries down. This surprisingly strong performance of real wages is even more evident in the data for seven cities. Average income for private wage workers grew annually at 6.9% between 1982-1984 but it fell at 2.2% per annum between 1984-1988.

It is therefore reasonable to conclude that the micro-enterprise sector exhibited a pro-cyclical behaviour similar to the wage sector as a whole. A possible exception worth investigating in more detail is the role of "informality" in the commerce sector, where employment levels were found to be less dependent upon levels of economic activity.

Self-employment

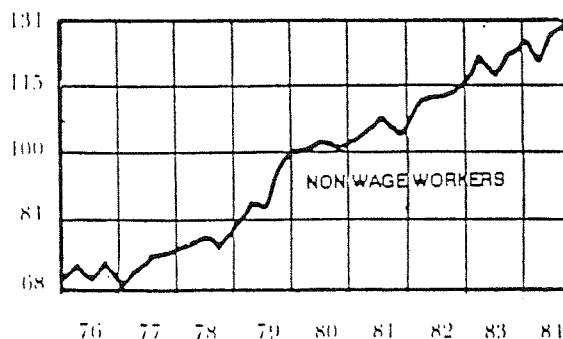
In contrast with the wage sector, self-employment showed an amazing a-cyclical behaviour. Employment increased in the expansive as well as in the recessive cycle, and a sectorial disaggregation does not show any important differences in relation to the aggregate trend. It seems therefore that employment in this sub-sector increased in the first case as a consequence of increased demand, and in the second as a consequence of increased unemployment.

The evolution of real income supports this interpretation. Between 1976-80 average per/worker real income in this sector grew 30% becoming higher than the average wage in the rest of the economy. From 1981 to 1984 it fell about 16% in a clear demonstration of income sharing. This phenomenon does not seem to be limited to the "informal segment" of the labour market. Self-employment also grew among professionals and technicians though at a lower rate and their income also fell.

PREALC estimations for seven cities show similar but less sharp fluctuations. Self-employment grew from 21.1% to 23.2% between 1982-1984 and decreased to 21.8% in 1988. Their data suggest that income for these workers did not grow in 1982-84 when real income for labour in general was growing at 4.9% per annum.

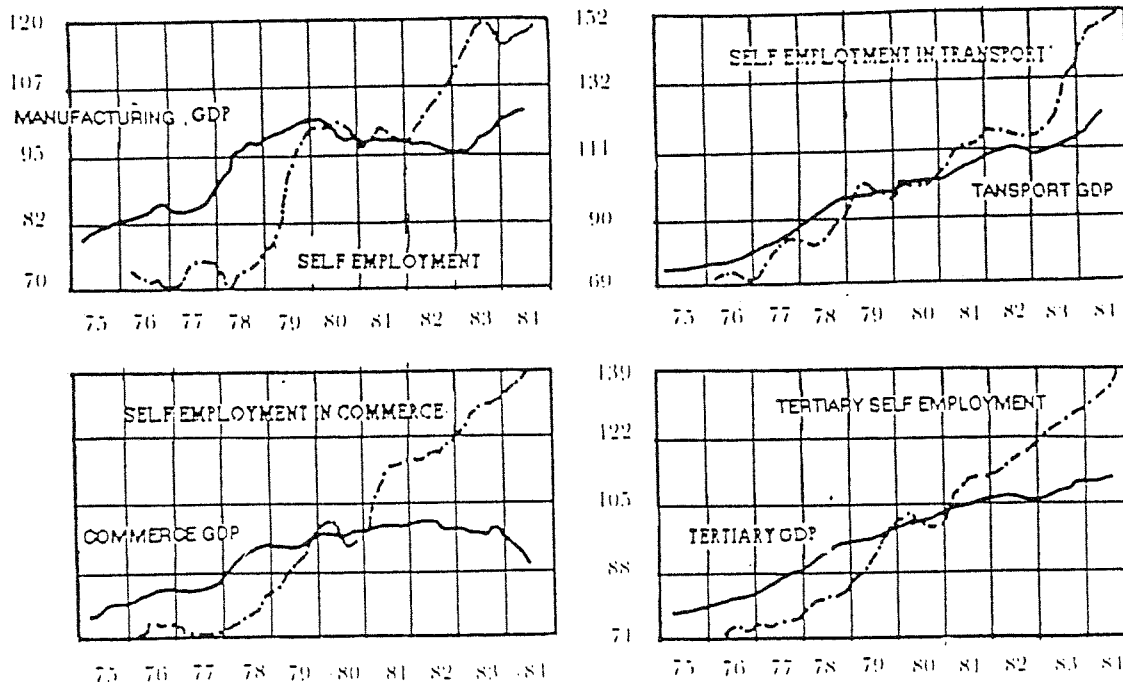
As shown in figure N° 15, average income for aggregated self-employment (including professionals and technicians) fell even slightly more than for the "informal segment" (excluding professionals and technicians). This is a particularly interesting phenomena and it may suggest that the a-cyclical role is not confined to the latter.

Figure N° 9
 EVOLUTION OF "INFORMAL" SELF-EMPLOYMENT
 (Excludes professionals and technicians)
 Index 1980 =100



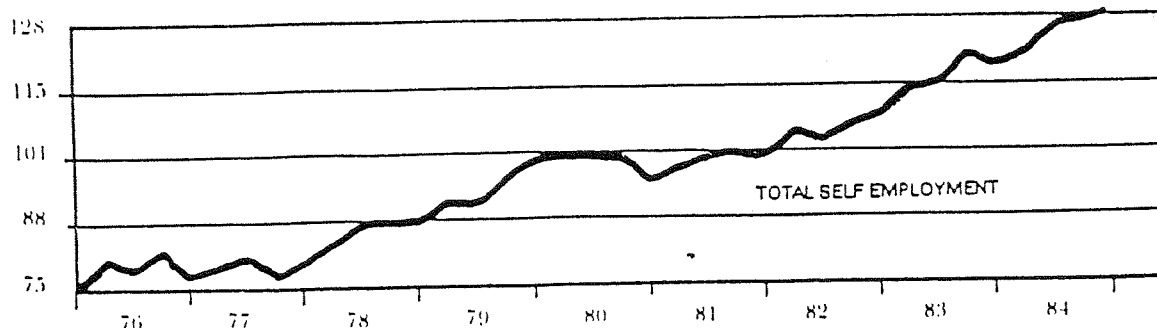
Source: Londoño, J.L. "La dinámica laboral y el ritmo de actividad económica: un repaso empírico de la última década" en Ocampo, J.A. y Ramírez, M. (eds) 'El problema laboral colombiano', SENA, DNP, CGR, Bogotá, 1987

Figures N° 10-14
 "INFORMAL" SELF-EMPLOYMENT AND GDP BY ECONOMIC SECTORS
 Index 1980 = 100

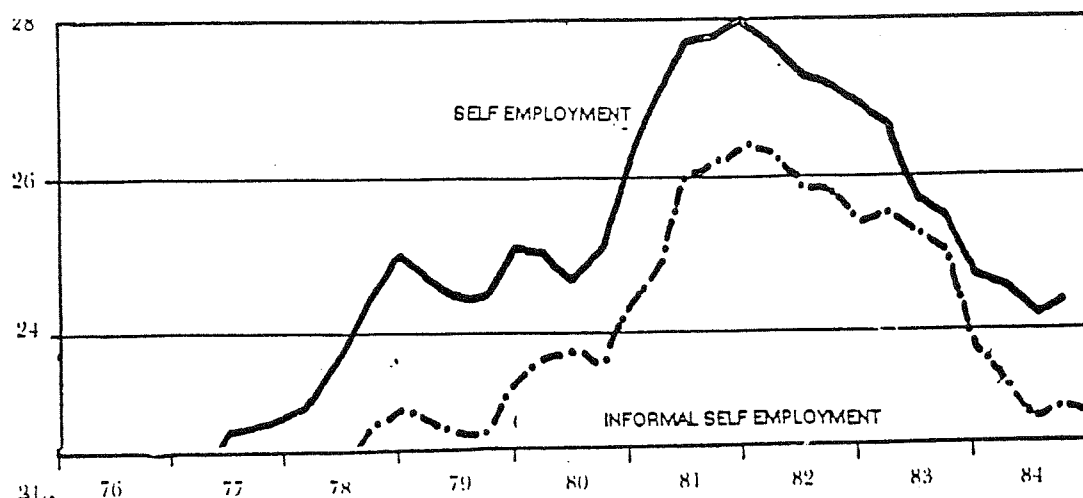


Source: Misión de Empleoop cit

Figure N° 15
 EVOLUTION OF SELF-EMPLOYMENT
 Index 1980 = 100



EVOLUTION OF AVERAGE INCOME SELF-EMPLOYED
Pesos of 1985 (thousands)



Source: Sarmiento, A., Ramírez, C., Baldión, E., Gómez, M.I. de, "La recesión y los ingresos laborales" en Ocampo, J.A. y Ramírez, M. (eds) El Problema laboral....ibidem

In summary, it is evident that "informal" self-employment played a considerable role in absorbing the impact of the recession upon employment levels. This brought average real income down, showing the income sharing character of the sub-sector during recessive periods.

However, it needs to be remembered that this was not the case during the expansive phase of the cycle. On the contrary, differences with the wage workers were narrowing down during that period and they disappeared at the end. As mentioned elsewhere, generalizing, as is often done, about the role of these kind of activities without reference to the macro-economic conditions of the economy, may be confusing to say the least (Uribe-Echevarría 1983; 1985).

To ascertain whether this observed behaviour was homogeneously shared by all economic activities encompassed in this sub-sector requires more detailed information. No important differences were observed by sectors, but other type of disaggregation may prove more poignant in this respect.

Household and Domestic Services

This particular segment of the "informal sector" played a clear counter-cyclical role. Employment fell during the expansive phase of the cycle (1976-80) and increased during the recessive phase (81-85). A very important complementary aspect is revealed by the evolution of remunerations. The annual rate for 1982-84 (3.8%) was only inferior to that observed in self-employment (7.5%).

During the 1976-80 period when employment was falling, income was increasing and becoming rapidly monetized. In the recessive phase increased employment was accompanied by real wage's fluctuating with the economic cycle, and a decrease in monetization. Some of the trends observed in the seventies were recuperated from 1984 onwards when a new expansionary phase begun.

Wages and income

The evolution of income and wages during the 1976-85 period show a remarkably similar long term positive trend for all types of occupations. In real terms the income of wage workers (public or private), self-employed and domestic service, increased at rates between 2.5% and 3% a year. This was largely due to the increases in human capital (Misión de Empleo 86).

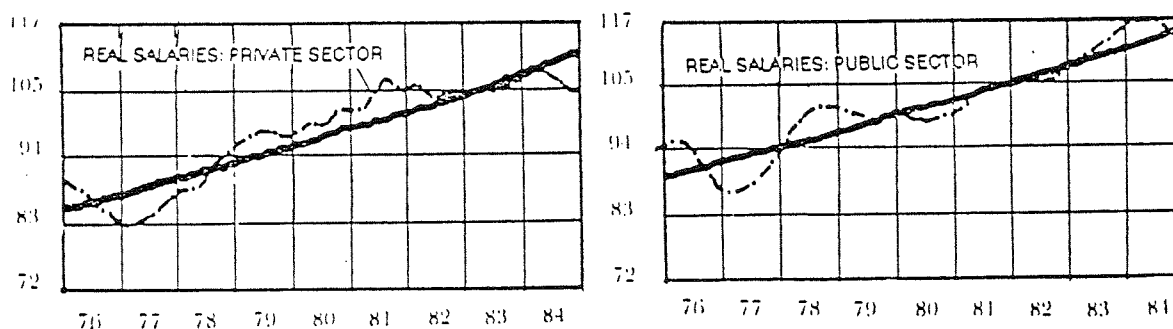
However, inflation and unemployment caused specific types of fluctuations. In general a rapid acceleration of inflation or a steep increase in the unemployment rates resulted in falling real income/wages. In aggregated terms however, wage workers gained considerably (6.9% in the private and 9,3% in the public sector), while self-employment decreased 6.5% according to the employment mission and 2.9% according to PREALC.

This situation reverted during the 1984-1988 period when per capita labour income decreased to about 1.3% per year. However, the wage mass still managed to expand during these years given the sharp expansion in employment. The mass of wages increased in the private sector at 3.4% and in the public sector at 1.0% annually. This is clearly inferior to the 1982-1984 period when the same rates were 6.6% and 10.0 respectively.

Wage workers

A regression model estimated by the employment mission indicates that real wages have systematically tended to adjust to high and stable inflation. Nevertheless rapid accelerations have resulted in the fall of real wages. In contrast they are almost insensitive to the level of unemployment, a feature which is stronger in the private than in the public sector. While the elasticity of wages to inflation (Consumer index price), was high (around +1) for both subsectors, the elasticity of the aggregated rate of unemployment was negative and very low (-0.04 and -0.102) respectively.

Figure Nº 16
EVOLUTION OF REAL WAGES
INDEX 1980 =100



Private sector

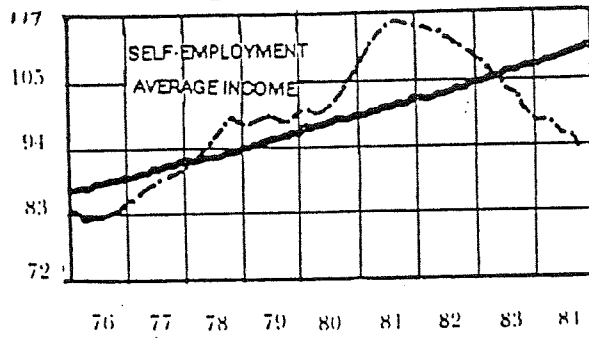
Public sector

Source: Misión de Empleoibidem

Self-employed

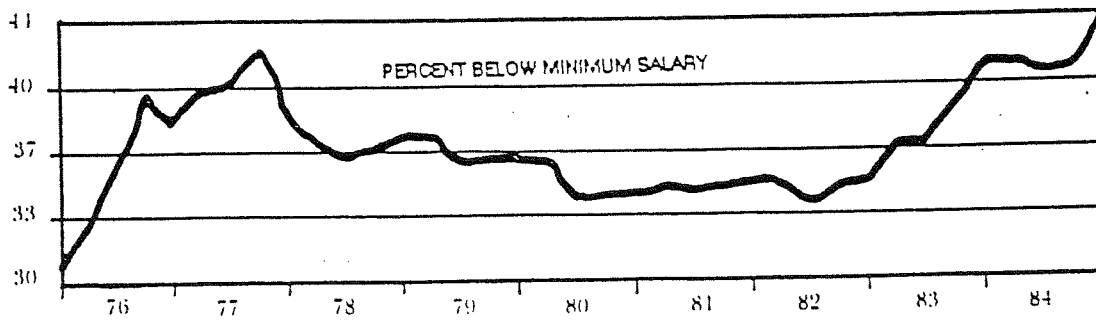
The adjustment to the price level is more effective in this case than in all others (the coefficient is significantly greater than 1 for them). The same can be said for the impact of unemployment rates, (-0.38). The level of income in the self-employment sector is therefore closely associated with inflation and the economic cycle. It would tend to follow the former and would fall as unemployment rises.

Figure N° 17
 EVOLUTION OF REAL INCOME OF SELF-EMPLOYMENT
 INDEX 1980=100



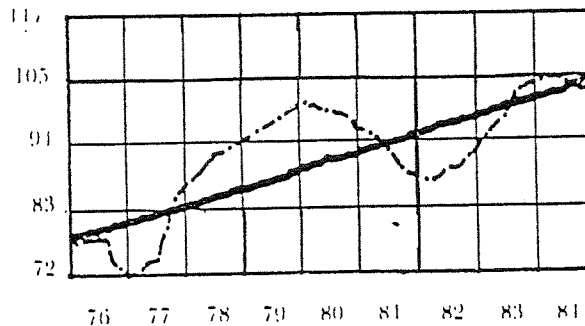
Source: Misión de Empleoibidem

Figure N° 18
 INCOME STRUCTURE WITHIN THE SELF-EMPLOYMENT SECTOR
 1976-85



Source: Employment.....ibidem

Figure N° 19
 EVOLUTION OF HOUSEHOLD AND DOMESTIC SERVICE INCOME
 INDEX 1980 = 100



Source: Misión de Empleoibidem

Household and domestic services

The evolution of income in household and domestic services shows considerable more fluctuations. Figure N° 18 indicates a behaviour closer to that of self-employment, though it began to fall and recuperate earlier.

IV. CONCLUSIONS: THEORETICAL AND POLICY IMPLICATIONS

The empirical data presented poses a broad range of interesting theoretical and policy questions for the PREALC-ILO version of the "informal sector concept". However, a full discussion is impossible within the limited scope of this paper. Forced to choose, two main issues have been selected: i) the concept of an "informal sector" as a set of economic activities and; ii) the role of the various types of economic activities in the process of labour absorption in urban economies.

THE EXPECTED BEHAVIOUR OF THE INFORMAL SECTOR

The statements presented in this section refer to the expected behaviour of the informal sector as one could infer from the ILO-PREALC version. The most important implications of this structuralist model are:

- Wages in the formal sector are rigid and have no clearing function in the labour market. Income and wages in the informal sector are flexible and have the function of clearing the informal labour market.
- Poverty levels and the size of the "informal sector" are not necessarily reduced during periods of expansion since surplus labour is a function of structural heterogeneity rather than of the economic level.
- The rate of open unemployment is not the most important adjustment mechanism during recessive phases. The contraction of activity levels in the formal sector results in a reduction of employment opportunities and in the aggregate magnitude of wages. However, in the informal sector, employment levels depend upon the magnitude of the labour surplus and the possibility of generating income by

production or service activities.

- The overflow of workers of the formal into the informal sector combined with the stagnation or reduction of demand, results in a steep decline of average income/wages in the latter (Cartaya 88).

Typically, therefore, the "informal sector" should exhibit either a counter-cyclical or an a-cyclical evolution. During expansive phases the sector should grow as a result of increasing demand. However, this may not result in better conditions within the sector since the relative labour surplus may be increasing due to worsening structural heterogeneity. During recessive periods the growth of the sector results from a larger labour surplus which combined with lower levels of demand, leads to the deterioration of employment conditions.

THE OBSERVED BEHAVIOUR

Was this behaviour observed during the early eighties in Colombia? The main conclusions which follow seem to summarize the observed evolution of the different components of the urban economy during the 1976-80 (expansive), the 1980-85 (recessive), and the 1984-88 (new expansive) periods.

A procyclical micro-enterprise sector

The data from Colombia indicates that the urban firm sector evolved with a pro-cyclical pattern during the 1976-1988 period. This is consistent with the post-Keynesian type of adjustments predicted by the structuralist models. The quantum of labour used was adjusted to reduced production schedules by releasing labour, while simultaneously wages remained unaffected by increasing unemployment rates.

However, some "informalization" of the formal labour force took place during the recessive period. The proportion of temporary workers increased significantly and partial employment also rose but to a smaller extent. This was specially visible in the manufacturing sector where almost all new employment was of this type.

Most notably however, all available evidence points to a

similar pro-cyclical behaviour of the micro-enterprise sub-sector. The case for manufacturing, construction and related services is specially clear. In the case of commerce, further disaggregation would be desirable to explore the existence of counter-cyclical components. In any case, the depth of the recession must have been higher in the manufacturing and construction sector if some counter-cyclical behaviour is allowed in the service business. Therefore demand seems to have constrained the employment level in a similar manner in both the "formal" and the "informal" firms sub-sectors. The most important adjustment mechanism in the latter case was a reduction in the rate of creation of new firms, complemented by an unusually high rate of failure within existing units (estimated at about 20%). Beyond that, the expansion of unpaid family labour suggests that some micro-firms may have reverted to "household industries" to adjust to the recessive conditions. In the same manner, the expansion of aggregate demand increased employment in both sectors though with a slightly greater impact on the micro-business component.

Additionally, there is no indication that wage levels in the micro-enterprise sector lowered independently of the formal sector, or that they followed the steep decline observed in the self-employment sector. In fact, income grew in both subsectors throughout the recession and fell in the new expansive phase.

In conclusion it may be argued that the micro-enterprise sector did not behave in the manner predicted for the "informal sector" in the model. On the contrary, the sector's behaviour was closer to the predicted and observed pattern of evolution of the "formal sector". The expansion of the 1984-88 period is certainly demand driven as the wage mass grew despite falling real income per occupied person.

An a-cyclical self-employment

In contrast, in the self-employment sector the adjustments took the form postulated in the neo-classical models of labour markets and in the form predicted for the informal sector by the structuralist model. The reaction to falling aggregate demand was

a downward trend of real income (price), rather than decreasing employment level (quantity).

Exhibiting an a-cyclical behaviour the self-employment sector continued to absorb labour at a similar rate than in the seventies despite the falling rate of economic growth. But this employment growth was accompanied by falling real income while in the expansive phase it had been accompanied by rising real income. After, the worst recessive years were left behind self-employment reduced its importance and income fell in line with market wide adjustments.

Several interpretations for this aggregate behaviour pattern are possible. It could be assumed for instance, that the sub-sector reacted homogeneously in both periods, with demand driven employment growth in the first period and, supply driven growth in the second, only to return to a demand driven period in the third though at a lower gear. Equally, it could also be assumed, that these a-cyclical pattern results from some combination of specifically pro and counter-cyclical reactions of its component activities. Finally, the possibility of some combination of both cannot be ruled out. An answer to this question cannot be given without further disaggregation of the information.

In summary, the self-employment sector complied quite neatly with the predictions of the model for the informal sector. There is little doubt about the involutory growth which took place during the recession, or about the favourable evolution during the expansive phase.

A residual household and domestic service sector

The small domestic service sector showed a clear counter-cyclical behaviour increasing its rate of labour absorption as other employment opportunities became scarce. As one could expect, a serious deterioration of employment conditions also took place: wages fell and the level of monetization which was reached in the seventies dropped.

Although this is a fairly small sector the findings might be of some importance in as much as they point to the likely existence of other similar sub-sectors within the self-employed.

If that would be the case, more importance should be attached to patterns of re-structuring within the latter sector.

CONCLUSIONS

Theoretical implications

The findings reported in this paper have a number of theoretical implications. Taken together they seriously question the relevance and usefulness of the concept of the "informal sector" in general, and the PREALC-ILO version in particular:

1) The different behavioral patterns exhibited by the main components included in the conventional definition of the "informal sector" suggests that they do not share a common role in the labour absorption process. The level of wage employment in the micro firm sector does not appear to be supply determined: it did not increase and wages did not fall as unemployment soared. On the contrary, "self-employment" exhibited the characteristic behaviour attributed to the "informal sector" in the unlimited supply of labour paradigm: employment grew in spite of falling demand and earnings dropped steeply during the years of crisis.

2) The only binding factor between the two sectors is their "unregistered" character, but from an economic point of view it is doubtful that such a definition would ever be of much use. In fact, the emphasis upon an aggregate informal sector has proved inadequate to correctly understand the important re-structuring that took place within each of the two sectors during both the recessive and the expansive periods. A true understanding of the series of adjustments that occurred during this period is particularly important if Colombia is to correctly formulate current employment policies.

3) The micro-firm sector is much more complex and differentiated than that which is suggested in standard "informal sector" analysis. First, construction and industry seem to follow the cycle while the commercial and service sectors show some counter-cyclical responses. Second, "household industries", defined as those predominantly using unpaid family labour, need

to be distinguished from the micro-enterprise sector. And as witnessed by the increase in family labour during the recessive period, household industries seem to play a counter-cyclical role. New activities of this type may have been initiated by the unemployed but it is equally quite likely that some micro-enterprises may have reverted to household industries. Had the second process been very pronounced the significance of the phenomenon would have been quite different. In any case, given the small incidence of unpaid family labour in Colombian urban labour markets its importance in the process of labour absorption is not significant. Third, one worker firms seem to be the most resilient but this may not indicate anything more than the low opportunity cost of labour under conditions of high levels of unemployment.

In summary, the micro-enterprise sector does not seem to be an appropriate analytical subject in all cases. Although the micro-economic units undoubtedly share some size (scale) derived problems, they differ in many other perhaps more crucial aspects. Above all, concepts such as micro-enterprises cannot do away with industry and firm structure differentiation.

4) The analysis further suggests that labour market segments and firm (or activity) classifications do not coincide. In fact, the protected/unprotected labour market divide cuts across registered as well as unregistered firms, large, medium-small and micro economic activities. Unprotected workers can be found in all these sectors though certainly in different proportions and modalities. Normal informality indicators show differences of the order of 50% but an adequate interpretation of the figures must bear in mind that the employment mix required by these two types of firms are different. Small firms use much larger proportions of unskilled labour and the shares of old/young workers are much higher in micro establishments. Greater opportunities to hire "informally" stem not only from size but also from the type of labour used.

Surely, "informality" is greater within the small scale sector but there is a need to distinguish between the "informal sector labour market" and the "informal labour market" in

general. The first comprises unprotected as well as protected workers in activities which may be classified as informal. The second comprises the unprotected workers of the formal and informal economic activities whichever definition for the latter is used.

5) A process of "informalization" of the labour force for the large scale sector was also visible during the crisis. As it was already demonstrated, temporary employment increased substantially and there is strong partial evidence to support that putting out systems also grew considerably. However, this seems to have started earlier during the seventies. Whether this process is associated with a reduction in the profit rates initiated in the late seventies and which accentuated during the crisis may be an interesting hypothesis to test. Estimations by Kalmanovitz seem to point in this direction. According to Kalmanovitz, the profitability of industrial activities fell constantly from 1973 to 1983 with only a brief recuperation during 1978-79 (Kalmanovitz 86).

In conclusion, the phenomena addressed by the "informal sector concept" may be better captured by the concept of "informality" which denotes a particular set of strategies applied by the labour force and firms in general. These strategies seek to cope with stringent economic circumstances and high levels of economic uncertainty which are caused by a crisis in the accumulation process and the imbalances in the labour market.

The modern sector tries to increase its flexibility and relieve the pressure on profits by reducing protected core staff and increasing temporary and external (putting out/sub-contracting) workers. Both of which are forms of unprotected labour.¹⁵ On the other hand the labour force faces an increased shortage of employment opportunities and resorts to self-generated employment or falls back to residual occupations. Obviously, the usual "informal sector" concept could still be

¹⁵ This phenomenon may take the form of traditional putting out in which individual workers related directly to a firm, or the externalization of sub-processes to informal production units.

applicable to the latter sectors, but the advantages of using the concept in this limited manner are not self-evident.

6) The findings also seem to point to the shortcomings of a two sector economic model (formal/informal) for LDC's urban economies with characteristics similar to Colombia. Whether the three sector model suggested by the previous analysis would be an adequate format depends on more disaggregated information. At least it would permit one to distinguish the micro-firm sector from the self-employed. This is a very important advantage given their different roles in the process of labour absorption.

Three sector models of this kind have been proposed in the past. For instance the proposal by Steel and Takagi includes a demand constraint for employment for the small scale sector that could fit the Colombian data so far examined. Nevertheless, and contrary to the evidence, it also assumes a common wage level with the residual (self-employment) sector and thus retains the notion of an "informal sector" (Steel and Takagi 1974).

In any case it seems that a more adequate model structure for urban economies in LDC's still needs to be crafted. This could be done by reconciling the more complex patterns of labour market segmentation (which are not recognized by the standard protected-unprotected dichotomy) with the also more complex typology of firm classes (not just the simple registered-unregistered categories). It is suggested here that such classification needs to harmonize the integration of firms to products and the factors market.

Policy implications

A series of policy implications arise from the findings of the Colombian case study. They may be particularly important if the policies are to be a component of anti-poverty strategies. Constrained by space and resources the discussion presented here constitutes little more than an enumeration. Nevertheless, this discussion might help point to some of the possible weaknesses in some of the popular policy recipes:

1) Given the significance of the constraints on demand which impinge upon the expansion of the micro-enterprise sector, the

current emphasis upon supply side intervention may be less effective than expected. This may be specially true in those cases where employment creation in micro-firms is intended as a counter-cyclical strategy.

2) A long term strategy for the development of micro firms as an instrument of employment policy needs to discriminate positively in favour of economic activities with demonstrated development potential in order to avoid the inefficient use of resources. In this respect, the "micro-enterprise" sector is not a satisfactory policy subject and cannot replace more explicit choices. An adequate integration into the broader sectorial and regional frameworks is needed to ensure success and attain the objectives pursued. Specific strategies for the promotion of small-scale and micro-economic activities should be based on relevant sectorial development theories rather than on generalizations about the informal sector. For example a theoretical industrial development background may prove far more fruitful in designing effective policies directed at manufacturing micro-firms.

3) As has already been demonstrated in this paper, the acceptance of wage labour in the micro sector as demand determined leads to wage employment/product elasticities close to one. This is quite different from the usual 0.3/0.4 obtained when this category is considered to pertain to the surplus labour embedded in the "informal sector". Such an important difference may be pointing to a revision of the standard argument which contends that the needs to thin out capital investments are the only way of providing adequate levels of employment creation. A more careful evaluation of the differences between direct and total employment impact of particular investment patterns may be necessary.

4) The Colombian data suggests that the assumed relationship between poverty and micro-enterprises is far less solid than that which is usually imagined. In particular, the usual assumption that stimulating employment in micro-enterprises is in all cases a valid poverty alleviation instrument must be submitted to closer scrutiny. In the case of Colombian a reduction of poverty

was possible even during the recessive years thanks to a strong increase in real salaries. On the contrary, employment expansion at lower salaries/wages in the expansive phase halted the process of poverty reduction. A key to understand this otherwise amazing situation is the fact that 2/3 of the cyclical unemployment was constituted by a secondary labour force (PREALC 1990). Finally, poverty is present in both the formal and informal firm sectors though it is larger in the latter. A short term poverty alleviation policy may be found to be more productive if it focused on household characteristics and was aimed at improving access to the existing opportunities.

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