

THE ECONOMICS OF LDC URBAN LABOR MARKETS : THE STATE OF THE ART

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The structure of any labor market imposes constraints on labor market processes and outcomes. By "processes" we mean how individuals respond to labor market opportunities, while "outcomes" refers to earnings that result from such responses. This paper first presents a brief overview of the employment problems in less developed countries (LDCs). It then discusses the urban labor market structure, processes and outcomes thereof which have been the focus of policy concerns in the past decades.

The rise of dualism in the LDC labor markets is discussed. It is argued here that technological innovations due to rapid economic growth are the major factors responsible for this phenomenon. Early in the 1970s, studies of LDC labor markets adopted terms like "formal" and "informal" sectors to indicate the dichotomy of the urban labor market. Although the context in which the notion of dualism or segmentation in the labor market may vary according to the scope and coverage of inquiries, some generalizations seem possible.

A literature survey suggests that higher earnings in urban areas attract rural workers. But it has been found that the probability of these rural workers getting coveted employment in the modern or formal sector depends upon contacts or some kind of information networks and education, both of which are components of human capital investment. The research undertaken on the formal sector on the one hand, generally reveals that wages in this sector are higher than those in the traditional or informal sector. The latter, on the other hand, provides considerable income-generating opportunities. Yet, it is not always the refuge for unsuccessful candidates in the formal sector. Finally, a selectivity pattern of job applicants according to educational level and sex has been suggested.

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Employment Problems in LDCs

In the past two decades, the implementation of economic development plans in LDCs has not resulted in the wide distribution of benefits expected to follow from the attainment of desired rates of growth (Edwards, 1974). Employment, which is a means of income distribution, has not expanded rapidly enough to absorb the increasing labor supply. This has led to rising unemployment and thus to concern on the part of policy makers and development planners. There are many reasons why the problem of unemployment needs to be urgently tackled. First, from the economic viewpoint, unemployment or non-utilization of available labor is a waste of resources. Second, in respect to individuals, it denotes suffering, which results from a lack of income and from the demoralization and indignity of having no productive role in the society. Finally, the reserve army of the unemployed is a potential source of political instability and social unrest (Bienefeld and Godfrey, 1974).

Since most LDCs are still largely agriculture-based, the problem of open unemployment is more conspicuous in the urban areas where activities other than agricultural are present. The main contributing factors to this phenomenon are alleged to be the rapid growth of the labor force and the inability of the "modern" sector, especially manufacturing and public utilities, to grow at the same rate as the labor force (Turnham, 1971). Studies on urban unemployment problems in LDCs have generally concluded that the movement of people from rural to urban areas has led to the problem of labor absorption. It is remarked by Friedmann and Sullivan (1974 : 385-386) that "....in developing countries urban growth rates are typically twice the rate of natural increase, and major cities have known to double and even triple their populations within a single decade." Furthermore, with insufficient labor absorption by industry, much of the urban manpower is absorbed by small-scale enterprises or personal services, and a portion becomes openly unemployed (Friedman and Sullivan, *ibid.*)

The Structure of LDC Labor Markets : The Rise of Dualism

Geertz (1963) asserts that the underdeveloped economy is divided into two main subeconomies : the "firm-based" economy and the "bazaar-type" economy. The "firm-based" economy is composed of large firms which generally adopt the technologies of industrialized economies, due to the lack of indigenous scientific and technological capacity. These technologies are usually highly capital-intensive, and require skilled manpower. As capital is scarce in these underdeveloped economies, governments need to invite foreign investment in order to enhance rapid economic growth. Thus, large firms in these developing economies are likely to be foreign-owned or controlled and export-oriented. The imported technology, being insuffic-

ntly adapted to the availability of existing resources, offers its application merely to the enclave of the modern sector. This, as a consequence, gives rise to the apparently dual labor markets (Singer, 1970). The firm-based economy thus coexists with the traditional "bazaar-type" economy which is comprised of small-scale enterprises supplying local or domestic markets with their products and services.

In LDC economies, the emergence of this duality due to technological innovations further reinforces certain requirements on labor force qualities. Workforce commitment, expressed in the willingness to become an industrial worker and not to go back to agricultural or farm activities, is a very important factor in the early industrialization phase for smooth planning and production processes. In order to enhance the workers' commitment to workforce stability, employers may increase wages along with taking other measures. This leads to the internal labor market phenomenon since the stability of the workforce, as indicated by low turnover rates, encourages employers to invest more in their employees in firm-specific training. To a certain extent, this investment also insures employers against the fluctuation of the workforce, reduces the cost of frequent recruitment to fill vacancies as well as decreases the loss of output while training new workers (Mazumdar, 1973; Taira, 1977). An increase in wages can also improve the health, energy or morale of workers, contributing to higher productivity. Finally, by raising wage levels above other firms, employers can "cream-off" the most productive members of the labor force (Knight and Sabot, 1981).

One empirical finding on the emergence of the internal labor market is provided by Morley *et. al.* (1977) in their study of 82 modern firms in Sao Paulo, Brazil. They assert that segmentation in the labor market can occur during a process of rapid economic growth even without institutional factors such as unions. Rather, the contributing factors are found to be managerial strategies such as hiring, training, and promotion which are used to adjust the labor force in the face of rapid demand growth. Their analysis of the survey suggests that a key to understanding of these patterns is the nature of skill acquisition, particularly "learning on the job" (LOJ) which is defined as "...learning about one job while doing another job" (Morley *et. al.* 1979 : 266). They contend that firms reduce the conflict between the need for trained personnel, the costs of training and the risks of losing these personnel by organizing promotion and production sequences to utilize as much as possible the skills acquired from Loj. since LOJ increases the trainability of workers, it eventually reduces on-the-job training costs. These costs involve time lost in training employees who could otherwise be fully engaged in the production process and hence output loss. Morley *et. al.* (1979) contend further that firms prefer internal promotion to outside hiring, not only because of skill specificity but also because their own employees will be easier to train. Moreover, the cost of acquiring information about the employee is far lower than it would be for a new hire. Therefore, by internalizing the labor market, the firm is utiliz ing

a by product of the production process : transmitted information about jobs and about employees.

Labor market segmentation does not require labor market distortions. Mezzera (1981) suggests that segmentation emerges when technological innovations are introduced in an initially unbalanced environment. The capital market may be imperfect in which case only large firms are likely to obtain loans for lump-sum investments. Within this context, smaller firms have to force their workers to accept lower wages in order to compete with larger firms. Since larger firms treat labor as a quasi-fixed cost, they do not reduce wages because their goal is to minimize total labor costs which include those of hiring and firing. Thus, the differences in behavior of large firms and small firms tend to be significant.

The examination of the apparently dual labor market seems to suggest that within different technological contexts, the processes and outcomes are naturally different. The larger firms, tend to provide stable and favorable terms and conditions of employment which include high wages, work mobility or promotion and good safe working conditions while these conditions rarely exist in smaller firms. With these differences, the flow of labor seems to be attracted from the latter to the former sector.

However, the notion of dualism applies not only to LDCs, but also to developed countries (DCs). The notion of dualism in the structure of enterprises in developed economies has been suggested by Averitt (1968). According to him, enterprises are divided into the center and periphery economies. On the one hand, the center consists of large oligopolistic, or monopolistic firms preoccupied with growth and market share. The profit maximization becomes their secondary goal of business operation. On the other hand, the periphery sector is composed of smaller, competitive enterprises. Hence, they are regulated by the competitive forces of demand and supply. Basically, they are viewed to be motivated by the desire to survive and earn a profit and have no interest in growth or in a share of the market, which in any case they are unable to perceive or powerless to affect. These different product markets have consequently led to the so-called internal and external labor markets (Doeringer and Piore, 1970). The internal labor market is seen as an administrative unit, such as manufacturing plant, within which the pricing and allocation of labor is governed by a set of administrative rules and procedures. This is different from the external labor market where pricing, allocating and training decisions are controlled directly by economic variables such as demand and supply. In the developed economy, the causes of dualism are generally attributed to the employer's initiation, the pressure from the workers organization, or both (Berger and Piore, 1980). The employers have an incentive to treat workers like capital when they have invested in the worker's training. Workers become a "quasi-fixed" factor of production (Oi, 1962). Further, trade union pressure imposes

restrictions directly upon the employers to secure their jobs through collective bargaining at the workplace or through legislation and politics. Recent discussion on this issue has also suggested that the rise of dualism is, to a certain extent, the product of the implicit contract between workers and their employers, i.e., wages and employment in return for certain concessions from the workers in the wage levels (Dean, 1982).

The discussion above draws out similar factors which contribute to dualism in both LDCs and DCs. I have argued that technological innovations, *inter alia*, are the principal cause. In LDCs, since the urban modern sector is growing less rapidly than its counterpart, it is important to further examine the characteristics and significance of the informal sector.

Formal and Informal Sectors : Definitional Issues

The term "informal" is first used by Hart (1983) in his investigation of the employment and earnings activities in Nima, Ghana. In that study, he finds that there is a heterogeneous group engaged in neither agriculture nor industry. He calls this group "informal sector" which is the first introduction of the concept in the development literature. However, in spite of the general support for the hypothesis that the urban labor market in many economies is dualistic, as evidenced by many studies and surveys, some doubts on its validity have been expressed. Emmerij (1974) argues that the dichotomy has been arbitrarily assigned. According to him, if there is a dichotomy at all it is because the so-called informal sector enterprises are still in the process of transition and it is only a matter of time before the discontinuities disappear. However, Mazumdar (1976) gives two reasons for the usefulness of the dichotomy :

- 1) Whether the relevant characteristics represent a continuum or not is itself a subject of research and if we are to go by casual empiricism, then certainly the view that the "formal" sector is separated sharply in some ways from the rest of the urban market is more valid than the contrary one for many LDC urban markets.
- 2) Even if the difference between two types of employment is one of degree rather than of kind, so long as it is of marked degree the methodology of economics can be applied successfully by operating with models which assume that the labor market is split into two different sectors.

In Mazumdar's view, the "formal-informal" sector distinction applied to the urban labor market is an aid to the study of income distribution in the urban economy. It is essentially a theory of personal income distribution which stresses "structural" factors in explaining earnings against rival explanations in human capital terms (Mazumdar, op.cit.). To distinguish these two sectors, Mazumdar uses

the notion of "protection" as the main characteristic. "Protection" may result from the action of trade unions, governments, or both. But these are not the only contributing factors, employer's paternalism may give rise to protection as well. Harberger (1971) also describes these 2 sectors by the criterion of "protection". He maintains that the "protected" sector job can easily be identified because so many people want them. Companies paying wages higher than the market levels for equivalent skills and working conditions tend to have low turnover rates whereas the unprotected sector firms tend to have high turnover rates. Other distinctions of the dualistic nature of the urban labor market include the notion of "organization". i.e., "organized vs. unorganized" (Joshi and Joshi, 1976; Merriek, 1976), "enumerated vs. unenumerated" (Hart, 1973, Irfan and Guisinger, 1976), "wage employment vs. self-employment" (Taira, 1966, Hart, 1973).

According to the ILO/UNDP employment mission report on Kenya; the "informal" sector activities are characterized as follows : (ILO, 1972; 6)

1. ease of entry
2. reliance on indigenous resources
3. family ownership of enterprise
4. small scale of operation
5. labor-intensive and adapted technology
6. skills acquired outside the formal school system; and
7. unregulated and competitive market.

The characteristics of the "formal" sector activities are then the obverse of these "informal" sector activities, namely :

1. difficult entry
2. frequent reliance on overseas resources
3. corporate ownership
4. large scale of operation
5. capital-intensive and often imported technology
6. formally acquired skills, often expatriate, and
7. protected markets (through tariffs, quotas and trade licenses)

By focusing on the characteristics of the enterprise, the Kenya report reduces the area of uncertainty in the problem of distinguishing the two sectors. In the report, it is the enterprises not the individuals in the urban economy, that are classified into formal and informal sectors.

In his study of employment and earnings in the informal sector in Brazil, Merrick (1976) defines employment in that sector as having four main characteristics. First, the job arrangements are typified by self-employment or loose and often temporary agreements, lack of coverage by minimum wage laws, social security and other types of government regulations, and without union contracts. Second, there is an easy entry into the sector and the high turnover rate of employ-

ment. Third, it operates on a small scale and is not capital-intensive. Finally, it is generally more competitive in the determination of wage levels. In contrast, the formal sector is more regulated, more difficult to enter, of a larger-scale, and more capitalized. (Merrick, 1976 : 338). Similarly in his study of employment in the urban informal sector of Managua, De Franco (1979) defines an "informal worker" (or working under "informal market relationships") as a person who is not : a) a professional b) employed by the government or the church : c) employed and paying social security according to government regulations : d) an employer in an establishment with more than five salaried workers. He also indicates that the informal sector workers can be related to the formal sector enterprises on a very temporary, casual or intermittent basis.

Adding to the dichotomy dilemma, Standing (1974) suggests that although the dividing line of these sectoral schema may be empirically difficult or practically impossible to determine, we can identify a formal sector proper which consists of a variety of legitimate low-status fringe activities as well as many illegal activities.

In summary, although the terms "formal" and "informal" still have the uncertainty of conceptual scope, they have gained preference among the students of development economics. The reason given is that the dichotomy of "traditional" whether applied to agriculture or to an urban center, suggests an absence of dynamism. According to Weeks (1975), this notion seems to be inconsistent with the observation that in these less developed economies, the unenumerated enterprises employ labor more efficiently than the enumerated large ones. Hence, the use of "formal-informal" dichotomy; unlike the "modern-traditional", does not contain the prejudgment of the unenumerated small-scale urban sector as non-dynamic (Weeks, *op.cit.*).

Formal and Informal Sectors in LDC Urban Labor Market

What is today called the "formal sector" and the "informal sector" in LDC was in fact earlier observed by Lewis (1954) in his model of economic development with unlimited supplies of labor. In that model, the formal sector is represented by the capitalist sector and is regarded as the leading sector which expands over time and absorbs the available labor surplus in the economy. Lewis also noted the existence of casual jobs in the informal sector, such as petty trade, outside the agricultural sector. The workers in this sector, according to Lewis, earn very small sums due to the irregularity and low productivity of their jobs. Hence, their number could be reduced to half without lowering the total output of the sector.

Thus, subsistence living and underemployment, in Lewis' view, occur not only in agricultural areas or the countryside but also in towns. However, until recently this urban parallel to rural subsistence and traditional economy has not been investigated. The interest in this neglected sector has been stimulated by the continuous streams of rural migrants into urban areas in spite of increasing urban unemployment. This influx of rural migrants into urban areas also raises the question of whether there are any rational explanations for the motivation of migration. Explanations are sought in the role of wage differentials and the probability of getting a modern sector job, the latter proxied by the urban unemployment rate as in the studies of Todaro (1969).

The Todaro model views rural-urban migration as the significant contributing factor to the urban unemployment rate. Because wages paid to modern sector workers are higher than earnings in the rural areas, migrants decide to move into urban areas. The presumption of this view leads to the notion that while unemployment in urban areas cannot be reduced significantly by increasing urban employment opportunities, there is an "equilibrium unemployment rate" at which migration is reduced to zero. It is suggested that migrants will become unemployed for some period of time while searching for modern or formal sector jobs. It is only after an unsuccessful job search that they will turn to traditional or informal sector jobs.

In another version of the two-sector analysis, it is postulated that workers compare the expected incomes in the urban sector with agricultural wage rates and migrate if the former is higher than the latter (Harris and Todaro, 1970). Workers compare expected wages because urban wages are set institutionally above the market-clearing level, i.e. minimum wages. In this version, it is assumed that there is always full employment in agriculture. Thus, rural-urban migration is the equilibrating force which eventually equates certain rural incomes and expected urban incomes when disequilibrium occurs. There are then four basic characteristics in the Harris-Todaro model. First, migration is induced largely by economic reasons. Second, urban wages are rigid and set too high to permit full employment. Third, migration decisions depend on expected rather than nominal wage differentials. Finally, migration takes place in disequilibrium.

Modifications of the Todaro and the Harris-Todaro models have been made by others who take into account some neglected variables. A substantial modification of the models has been made by Fields (1975) who asserts that the predicted equilibrium urban unemployment rate of the Harris-Todaro model assumes random job rationing. That is, the employment probability is the ratio of all jobs to the entire urban labor force rather than job hiring, i.e., newly-created employment and replacement demand, in relation to those not already employed in such jobs.

Consequently, the model predicts a higher unemployment rate in equilibrium than would be expected for any finite rate of labor turnover. He then extends the analysis by taking into account other factors he believes to be significant. These include the use of a more generalized approach to the job-search process, the possibility of under-employment in the so-called urban "murky" sector (to be described later), and preferential treatment by employers of the better-educated. The Harris-Todaro model implicitly assumes that those who live in rural areas have no chance whatever of finding urban jobs. However, there are many plausible reasons why rural residents might have a positive chance of obtaining urban jobs. Much of urban hiring is done through channels which do not exclude rural residents. Recruitment is often done through informal channels, i.e., by word of mouth. Further, migrants already working in the urban areas proximate to cities occasionally are able to actively search for urban jobs.

It has been observed that the urban economy of the LDCs provides a wide variety of income-generating opportunities which fall into the "murky" sector is characterized by ease of entry and lack of a stable employer-employee relationship. It is in fact similar to what is known as informal sector in the two-sector dichotomy. This sector provides a new option of earning opportunities to the labor force participants. Not only can migrants choose between staying in (or return to) agriculture or being either employed or unemployed in the cities, but they can also choose to be under-employed in the urban murky sector while looking for a better job. The conventional analysis suggests that full-time job search would yield a better pay off than part-time search, i.e., job search while unemployed is better than job search while employed. Further, although underemployment in the informal sector yields a positive wage and unemployment pays no wage, the informal-sector income is likely to be earned at the cost of a somewhat reduced job search opportunity. This may be simply because the informal sector workers have less time to look for modern-sector jobs. But Fields (1975, *ibid.*) argues that the *a priori* considerations suggest that by taking a murky-sector job the worker would not be seriously impeded in their search for work in the modern sector. Two observations about the employment and hiring practices seem to support this assertion. First, the informal sector work is generally flexible in nature such that one can adapt one's own work hours and schedule; self-employment and part-time work are common in this case. It is possible for the informal sector workers to adapt their work schedule in a manner that they can also do their job search without impeding their production or services activities. Hawkers or vendors for example, may arrange the vending route such that it covers the areas where they can get the information about job vacancies from people who are already employed in specific establishments. Second, it has been observed that many modern-sector jobs are obtained through employed friends or relatives. Consequently, these workers would have relatively

little to gain by searching full time and they would be more likely to take up employment in the murky or informal sector in order to earn a cash income. Another significant variable determining the probability of getting an urban sector job is the preferential treatment by employers of the better-educated. Fields (1975) maintains that if highly educated workers are hired preferentially for modern sector jobs, the urban unemployment rate will be lower than if workers were hired randomly without regard to educational attainment. This is due to the fact that preferential hiring reduces the number of jobs available to the less or uneducated.

Findings About LDC Urban Labor Markets

Recently, the recognition of the role of the informal sector in the urban economy has led to many studies of the sector, both survey and econometric analyses. The results generally show its significant role in providing employment to members in the urban society. But the returns to labor in this sector have been ascertained to be lower than in the formal sector. Hart's study (1973) of the employment and earning activities of the low income section of the labor force in Nima, Ghana, sheds light on the unexplained part of rural-urban migration in the Harris-Todaro version. Hart suggests that the "pull" factors in this context must include informal income-generating opportunities. He finds that the distinction between formal and informal employment is not randomly determined, even when allowing for differences in the qualifications of would-be aspirants to the various jobs. The evidence on the job search process also reveals that the information about vacancies tends to travel along the social networks rather than through employment exchanges, and nepotism is not uncommon. Hence, migrants from one village or area tend to be clustered occupationally. The notion of migrants responding to income opportunities in the informal sector is substantiated by other empirical studies such as those by ILO (1972) in Kenya and by Sethuraman (1977) in Jakarta, Indonesia. The informal sector has been viewed as sponge-like in absorbing the influx of rural migrants. In such a manner, this sector has considerably minimized the adjustment problems in the labor market resulting from massive migration (Sethuraman, 1977, *op.cit.*)

Joshi and Joshi (1976), in their Bombay study, find that there are two streams of migrants : the educated and the uneducated. In their study, migrants obtain jobs in a relatively short period of time and some even have their jobs prearranged before migrating, i.e. through one's ethnic group. Mazumdar (1981), based on the 1975 World Bank Migration and Employment Survey (MES) for Malaysia, finds a high proportion of recent migrants to the urban labor markets, i.e., those with a duration of a year or less, in the medium and large enterprises. His findings do not show that self-employment or small-scale sector employment are the first shelter for migrants who come into the city for the first time. Oberai (1977) analyzes migration to Greater Khartoum using the Comprehensive Employment

Strategy Mission Household Data. He finds that 46 percent of those who come from rural areas are either relatives or friends of the head of the household in which they are living in the Greater Khartoum. Through these family members and friends that the potential migrants get their information about income and the job opportunities in the town. Fowler's (1978) Sierra Leone study and Hay's (1974) study of rural-urban migration in Tanzania also capture the importance of the information network or "contacts" which help locate urban jobs for migrants.

Formal Sector Studies :

Although many empirical studies have been done on personal income distribution in LDCs. It is only recently that the formal-informal sector distinction has been applied to the study of income distribution in the urban economy. This dichotomy is used to ascertain the impact of the sector of employment on individuals' earnings. In general, the empirical results confirm that personal endowments such as age or experience and education are significant explanations of earnings differentials. But many studies also find that both personal endowment and employment sector is significant.

In LDCs, where education is not yet widely available, it is likely that differences in earnings will be substantially explained by educational attainment. Carnoy (1966), based on the 1963 cross-sectional sample data for 4,000 male urban wage earners, estimated income as a function of several independent variables including the number of years of formal schooling, age, occupation, and father's occupation. The regression results indicate that education explains 43% of income differences among Mexican wage-earners. Psacharopoulos (1977), using the Moroccan data set of the 1970 random sample of 1,600 male Moroccan full-time employees, also finds that education and experience are the principal determinants of the workers' earnings. Using the Tanzania data set, Knight and Sabot (1982a) find that the returns per year of current employment is higher than experience in prior employment. Further, workers employed on a casual basis are found to be paid less than those employed on a regular basis. This is not surprising, however, from the employers' point of view. The study of migrants in 14 cities of Java, Indonesia between 1968-1973 by Aklilu and Harris (1980) reveals that both human capital factors and institutional or structural factors determine migrants' earnings. This study estimates the monthly earnings of the migrants as a function of variables such as education, age, year of arrival in the city, employment sector, pay period, occupation, and city of migration. In Mazumgar's study of Malaysian urban labor markets, education and age (substituting for experience) are found to be the principal explanatory variables for the variations in income of individuals.

In Thailand, studies on individuals' earnings in what is called the modern or formal sector reveal similar findings as those obtained in other LDCs

cited above. Blaug (1974), using Thailand's household survey data in Bangkok, finds that sex, age, education and being in a large firm account for 47% of the variance of earnings. His empirical results suggest that human capital variables such as age and education explain more to the variations in personal earnings than family background variables such as parents' education, ethnic origin, and father's occupation. Isarangkun and Taira (1977), based on their survey data of production workers in an American-Thai company in Thailand, find that education, length of service with the establishment, and sex are significant determinants of wage differentials. Tongudai (1982) finds, in her study of women migrants and employment in Bangkok that sector of employment, age, and duration of migration are significant explanatory variables for individuals earnings. Defining the informal sector enterprises as those with less than 10 persons, she finds that female migrants in the informal sector earn below the average.

In short, findings in studies dealing with the formal sector indicate that variables such as age, experience or length of service, education, sex and sector of employment (defined by size of establishment) are the significant explanations to the variations of individual earnings.

Informal Sector Studies

The informal sector can play a double role in the development of the country's economy. It can be passive by absorbing rural labor unable to find modern sector employment; or it can be active by exercising the initiative in the use of capital-saving, labor-intensive techniques to produce goods and services complementary to those of the modern sector (Joshi et al., 1975). Although some informal sector activities are precarious, intermittent and often provide only a secondary earnings, nevertheless, play an important role in the distribution of income by enabling families to achieve a level of consumption that would otherwise be unattainable. Studies on the informal sector to date have used different criteria to designate the sector. Nevertheless, most researchers seem to use size and sophistication of technology as their frame of reference. In general, the studies of the informal sector confirm the notion that this sector provides income-generating opportunities and absorb a large number of the rural migrants (Sethuraman, 1981). In terms of employment, it is found that the informal sector provides about twice as much employment as the formal sector (Aryee, 1981). In addition, two hypotheses have been supported : (1) that self-employment is considered a more satisfying alternative to employee status, and (2) that employee status in the informal sector is a prelude to self-employment. The evidence also rejects the notion that the informal sector is a temporary station for the unemployed urban labor force (Fowler, 1978) neither is it the reservoir of the unsuccessful candidates for the modern formal sector (Nihan and Jourdain, 1977). In the informal sector, there is also what can be called

"modern informal sector" -- the small undertakings which produce goods and services similar to the modern formal sector. Most of the entrepreneurs in the informal sector manufacturing activities are found to make a profit equal to or greater than the weekly wage of a skilled workman in the modern sector (Nihan and Jourdain, *ibid.*) Nevertheless, the range of opportunities available outside the organized labor market is so wide that few of the "unemployed" are totally without some form of income, however irregular.

In spite of this, the incomes in the traditional or informal sector need not necessarily be lower than those of the modern or formal sector. Scoville (1974) divides the Afghanistan urban labor markets into 3 sectors : skilled and unskilled "traditional" sectors, and an internal labor market or industrial sector. He shows that if skills are highly developed, traditional sector participants can earn higher incomes than those of the lower levels in the industrial sector. Hence, his study suggests that even in the traditional or informal sector itself, earnings vary according to individual's skill levels.

With respect to the earnings of the self-employed and the employed, Webb's study in Peru shows that the earnings patterns of the self-employed is quite diverse (Webb, *ibid.*). Thirty-seven percent of the self-employed earned as much as, or more than the modal earnings in the formal sector. In Tanzania, Sabot's survey (1975) of urban labor markets suggest a similar pattern. The income of the self-employed is conspicuously less equally distributed than that of wage earners. Another study of urban labor market in Malaysia reveals a similarly wide dispersion of earnings for the self-employed (Mazumdar, 1976). However, while the Peru and the Tanzania studies suggest that a large proportion of the self-employed are in the bottom income group, the self-employed in the Malaysia study seem to do better than the wage earners. One reason for the discrepancies in these findings is that in Peru and Tanzania, females are a larger proportion of the self-employed than in Malaysia. Among the self-employed group, there is a striking range of income distribution compared with the employee group (Mazumdar, 1976, *ibid.*) In Managua, De Franco (1979) finds, in his study of the urban informal sector, that low earnings in this sector can be explained in terms of personal traits such as human capital variables, sector of employment and migratory status. A selectivity pattern of the members in the informal sector is observed in that they are generally different from their counterparts in the formal sector. As is observed, the majority of informal sector entrepreneurs rely on their own resources, such as personal savings, for their capital requirements and very few seek help from formal credit institutions (Marga Institute, 1981). The study further points out that inadequate access to skills, both technical and managerial, forces new entrants to seek the help of well-established informal sector enterprises. This can be in the form of wage employment or apprenticeship. However, it is not easy to gain such entry unless

the well-established entrepreneurs have full confidence in the new entrant. To an extent, a patron-client relationship is required to gain entry. Other factors, such as ethnicity and regional origin seem to play an important role in this process. Ethnic and regional origin in this case may be more involved in the process of job or employment rationing. Where the population is composed of heterogeneous, ethnicity and migration is an on-going process in the area in question. It is found also that there is very little vertical expansion in the informal sector; much of the growth results from horizontal expansion. Male members in the informal sector have significantly more education than women. Migrants in the informal sector do not differ substantially from the natives in terms of education. The study reveals that more educated persons learn skills to change occupations to a greater extent than do those with little education. The latter rely more on friends for learning new skills, while the better educated acquired their skills from training centers, employers, and other sources. However, little variation in educational level exists among his sample. Labor turnover is found to be considerable among the wage employees in the informal sector as indicated by the short term of current employment, i.e., from less than one year to two years. Still, the majority of the informal sector participants do not want to change their job. This attitude is evidently stronger among less-educated ones. In terms of wages and value added, Moir's data suggest that the average income of the informal sector workers in Jakarta seems to be substantially lower than that of the formal sector workers. Only a few wage workers earn incomes comparable to the minimum in the formal sector. The gross value added, though varies among the enterprises, is not small considering the little capital employed and conditions under which it is generated. However, the median earnings of the self-employed or the entrepreneur groups are more than twice the wages of workers. The figure suggests that the average entrepreneurial income compares favorably with the minimum prevailing in the formal sector. His findings then lend support to the suggestion of other studies that the earnings differentials exist even within the informal sector.

The major problem of the informal sector is its lack of access to credit and capital; hence, its inability to attract the higher skilled workers. Undoubtedly, this factor contributes to the low productivity of labor in the informal sector [manufacturing enterprises. However, this may be due as well to the low capital intensity in the informal sector.

Workers in the informal manufacturing sector work long hours and receive below the legal minimum wage and less than what their counterparts earn in the formal sector (Jurado, 1981,) Jurado *et. al.*, 1981, 1978). The informal-sector enterprises are found to have very few linkages with the formal sector, i.e., they do not have many intersectoral trade between them. Rather, they have linkages with other low income households and other small-scale enterprises. In Thailand, the self-employed earn more than the small-scale establishment employees (Chiswick,

1976). They generally earn on an hourly basis, more than the unskilled labor but less than those in the formal sector (Waldorf, 1979).

Conclusion

This paper presents the overview of the employment problems and the urban labor market structure in less developed countries (LDCs). The rise of dualism in the LDC labor markets is discussed. It is argued that technological innovations due to rapid economic growth are the major factors responsible for this phenomenon. The discussion of the analytical framework of the dual labor market and the literature review suggest that earnings in urban areas are higher than in rural areas. This attracts rural workers to migrate to the urban areas to find urban sector jobs. The literature suggests that the significant variables determining their probability of getting into the formal sector include having contacts or some kind of information networks and education which indicate the preferential treatment of the employers.

The studies of the formal sector generally indicate the similar findings to those undertaken in the more developed economies. The variables such as age, experience, education, and sector of employment are significant explanations for variations in individual earnings in the formal sector. Studies of the informal sector, in general, show that the informal sector provides considerable income-generating opportunities. Moreover, it is not always the refuge for the unsuccessful candidates for the formal sector. The survey studies focusing on the income distribution suggest that in the informal sector, there exists a wide variation of earnings. The self-employed with skills earn more than their counterparts in the formal sector. The unskilled and less educated workers are found to be concentrated in the informal sector. A selectivity pattern of job applicants according to educational level and sex has been suggested. Women are found to be more concentrated in the informal sector and generally receive lower earnings than men. Among women themselves, those who are employed in the formal sector earn more than their counterparts in the informal sector.

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