

## Urbanization and Development in Latin America

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## URBANIZATION AND DEVELOPMENT IN LATIN AMERICA

One of the dominant characteristics of Latin American growth since World War II has been rapid urbanization. In particular, the explosive growth of a number of concentrated urban centers has been a focus of attention and of concern. Between 1940 and 1960 the population living in cities exceeding 500,000 inhabitants increased from an estimated 12 million to 35 million<sup>1</sup>. If present trends continue the number is expected to reach 100 million by 1980<sup>2</sup>. In Brazil, Mexico, Colombia and Venezuela alone the number of cities of over 500,000 increased from 3 in 1940 to an estimated 18 in 1970<sup>3</sup>. In each of these same four countries urban nuclei of over 20,000 people grew at an average annual rate of no less than 4.3 per cent in the years between the last two censuses<sup>4</sup>. In recent years the population of Mexico City, Rio de Janeiro, Santiago, Lima, Bogota, Caracas, and Quito have all grown at annual rates in excess of four per cent<sup>5</sup>.

This rapid growth is commonly referred to by observers as either over-urbanization or hyperurbanization, terms which prejudge the effects of urbanization on development as being unfavorable on balance. The adverse effects on development attributed to rapid urban growth may be sketched out briefly in caricature : 1. Rapid urbanization in Latin America has preceded and outpaced increases in agriculture production, hence rapid urbanization has tended to cause an increase in food imports with a consequent deterioration of the balance of payments of many countries. 2. Rapid urbanization has outpaced the ability of industry to absorb manpower, hence it has tended to transfer disguised unemployment from rural agriculture to urban services. The very first section of the July 1970 report of Raul Prebisch, *Change and Development : Latin America's Great Task* is headed « Spurious absorption of manpower ». The report states :

If the production of goods in all these nonagricultural activities absorbs fewer people than it should, and employment in services increases disproportionately, a serious imbalance inevitably results : the proportion of the labour force that wishes to consume goods but does not produce them expands beyond all reasonable bounds, while the proportion that does produce them shrinks to an abnormal extent.

The scale on which this is happening is truly disconcerting ; the proportion of the economically active population working in industry, construction and mining steadily declines instead of rising, whereas the opposite is the case in the services sector, where the aforesaid spurious

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<sup>1</sup> UNITED NATIONS, « Urbanization ; Development Policies and Planning », *International Social Development Review*, No. 1, 1968, p. 13.

<sup>2</sup> *Ibid.*

<sup>3</sup> ELIZAGA, Juan, *Urban-Rural Pattern of Population Distribution in Latin America, Changes in this Pattern during the Last Two Decades*, Santiago, Chile : Centro Latinoamericano de Demografia, January, 1969 Series A, No. 14, provisional, p. 6.

<sup>4</sup> *Ibid.* p. 9.

<sup>5</sup> *Ibid.*

absorption of redundant manpower occurs, while part of the labour force is left jobless altogether. It is essential to correct this distortion of the occupational structure by reversing the trends described <sup>6</sup>.

Rapid urbanization has produced a volatile mass of people whose demands for housing and social services — health, sanitation, education, transportation, and electricity — leads to a distortion in the pattern of public expenditure, which not only leads to a reduction in public expenditures on services related directly to production, but also imposes a burden on the limited financial capacity of governments. The Prebisch report observes :

It may be that there is also an optimum level for investment in infrastructure — and for all the many other services required in urban development — and that above this level the subsequent growth of cities should be prevented . . .

Measures will have to be adopted that may seem anti-economic today, but which actually may not be so, or will cease to be so with the passage of time <sup>7</sup>.

A range of policy prescriptions flows from this diagnosis of presumed ills. These are usually aimed at either reducing the push factor — the push from rural areas occasioned by limited economic opportunity ; reducing the pull factor — the pull of opportunities and « bright lights » in the cities ; or increasing the « pull » of secondary urban centers relative to the capital or principal city or cities. More specifically, investment in agriculture, labor-intensive land reform, regional development policies, and encouragement of labor-intensive investment have all been either recommended or pursued. These strategies all view balanced growth — urban-rural balance, regional balance, and balance between economic sectors — as an immediate means by which economic development can be achieved, rather than as either an end of development or as a more remote segment of a continuing evolutionary sequence or chain of means and ends.

It is precisely these views on urbanization and the policies related to them that I wish to challenge. Many of the dissenting arguments which I am about to advance are not new ; that which I hope will be new will be the manner in which I draw them together to present a unified view of the role of urbanization in the development process in Latin America.

The basic premise of my analysis is that disequilibria or imbalances are essential to the process of development or structural transformation <sup>8</sup>. The existence of disequilibria should not be regarded automatically and uncritically as being antithetical to development. After closer and more dispassionate examination one may discover that these very imbalances, rather than being problems requiring solutions and rather than providing signs that the

<sup>6</sup> PREBISCH, Raul, *Change and Development : Latin America's Great Task*, Washington : Inter-American Development Bank, July 1970, p. 3.

<sup>7</sup> *Ibid.*, pp. 199-200.

<sup>8</sup> See Albert HIRSCHMAN'S espousal of unbalanced growth, *The Strategy of Economic Development*, New Haven : Yale University Press, pp. 62-83.

goal of development is being frustrated, are, in fact ongoing, spontaneous solutions to problems and evidence that rapid development is occurring. Government policy should, in consequence, attempt to complement and reinforce many existing trends, rather than trying to reverse them.

It is my contention that the continued explosive growth of a network of urban centers is one of the disequilibria that holds the key to economic development in Latin America. Writings on development consistently emphasize inadequate demand or the smallness of markets as a key obstacle to the growth of industry. Market size is not merely a matter of total population and level of per capita consumption expenditures, but is also related to the adequacy of internal distribution and transportation networks, the commodity composition of individual expenditures, and the availability of consumer credit. Explosive city growth in Latin America, by concentrating population, is providing the growth of markets necessary to induce new investment. As urban markets grow, so does the range of industries and activities which can be supported by the domestic market without recourse to prohibitive tariffs. Those that would protest that consumption must be reduced in order to favor savings and investment are confusing means and ends. Low levels of consumption are likely to provide little incentive to the growth of private investment. Increases in the volume of consumption expenditures are likely to shift the relative profitability of different types of investment in favor of industry. Nor should one be misled into believing that because per capita income is low, that the urban market for consumer durables is limited: the poor can and do exercise discretion in determining their expenditure pattern, sometimes at the expense of caloric and protein intake. Oscar Lewis, for example, has reported on an inventory of household goods of the occupants of one *vecindad* which he refers to as one of the poorest in Mexico City. Of the fourteen families he studied, eleven families had one radio each and one family had two radios, yet only two of these families owned forks and only seven had table knives. There is yet another side to changed consumption patterns. A recent study by Deborah Freedman of consumption of modern durables — including radios, sewing machines, motorcycles, bicycles and clocks — in Taiwan concluded that « the families who are modern in consumption are characterized by a complex of characteristics, attitudes and behavior which, on the whole, are likely to be beneficial to the development process »<sup>9</sup>.

Turning to the question of the imbalance between the rapid growth of the urban population and the sluggish growth of agricultural output, I should merely like to suggest that migration from rural areas is not inconsistent with the eventual structural transformation of the agricultural sector. Historically, agricultural development and displacement of rural labor have been closely

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<sup>9</sup> FREEDMAN, Deborah, « The Role of the Consumption of Modern Durables in Economic Development », *Economic Development and Cultural Change*, XIX, October 1970, 47.

linked. The relative decline in rural population in Latin America may be a necessary prelude to the creation of an efficient agricultural sector. The historical evidence would seem to suggest that if rural migration could effectively be checked (which is a doubtful proposition), it would merely shift into the future the problem of the spatial relocation of population. Moreover, as Albert Hirshman has pointed out, if increased food imports intensify balance of payment problems (which Hirshman refers to as a privileged problem — one receiving immediate attention) then structural reform of agriculture (ordinarily a neglected problem, but now linked to a privileged one) may be undertaken sooner than would otherwise be the case <sup>10</sup>.

With regard to urbanization and the growth of so-called disguised unemployment in the service sector, I should like to argue that we have grossly misinterpreted a phenomenon that represents an improvement in the level of living of tens of millions of Latin Americans. Economists constantly refer to low productivity employment in the services. But how precisely does one measure productivity in the services? The answer is that one does not measure, it, one imputes it. One's wage or salary is taken to reflect one's productivity, which it would *if* there were perfect competition and no barriers to entry in all economic activities. For example, is a college professor who receives say \$14,000 a year twice as productive as an elementary school teacher who receives \$7,000? Or do these salary differences tell us instead something about barriers to entry rather than productivity?

It is precisely because there are few barriers to entry in a number of service activities that remuneration in these activities tends to be low in Latin America. Growth of employment in the services is not a problem as economists would have us believe, but is rather a spontaneous, on-going solution to the employment problem <sup>11</sup>. It seems rather curious that the very same people who recommend that Latin America should emphasize industrial processes that are more labor-absorbing (processes that would likely condemn Latin America to a continuing role as an exporter of unprocessed primary materials) consistently criticize the service sector, precisely because it is absorbing labor. If service employment were really associated with growing human misery then it is reasonable to believe that the flow of migrants to urban areas, in general, and to the capital cities in particular would long ago have ebbed substantially or even have been reversed. Such has not been the case <sup>12</sup>. It may well be that the migrants to a rapidly growing Latin American

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<sup>10</sup> HIRSCHMAN, *Journeys Toward Progress*, Garden City, N.Y.: Doubleday & Co., 1965, pp. 309-13.

<sup>11</sup> See FRANKMAN, Myron J., « Employment in the Services in Developing Countries », Paper presented at the meetings of the Canadian Economics Association, Toronto, June 6, 1969.

<sup>12</sup> MANGIN, William, « Latin American Squatter Settlements: A Problem and a Solution », *Latin American Research Review*, II, Summer 1967, 89 and HERRICK, Bruce, *Urban Migration and Economic Development in Chile*, Cambridge, Mass.: The M.I.T. Press, 1965, p. 54.

metropolis have a clearer view of the shape of long run national development than do the policy makers. The planning horizon of the migrant may span one or perhaps even two lifetimes, while the policy maker frequently has a two to three year horizon, occasionally a five year horizon or, rarely, a ten year horizon. The planner is concerned largely with marginal increments in selected variables. The migrant, on the other hand, may view urbanization as affording a quantum leap in the range of choices and opportunities available either to himself or to his children.

Thorstein Veblen observed in 1915 that countries that are late industrializers or modernizers, who do not have the disadvantage of being saddled with obsolete productive facilities, can put their « lateness » to advantage by acquiring the most up-to-date equipment. Late modernizers also do not need to repeat all the steps or utilize all the processes that were used by the early modernizers<sup>13</sup>. The modern economy of the 1960 and 1970's is predominantly a service economy. In following the pattern of expansion of capital intensive industry and labor intensive services the Latin American economies have taken advantage of their lateness to build modern sectors and structures that are suited to the future rather than to the past.

The argument attributing distortions in public expenditure patterns to rapid urbanization are probably true ; however, the magnitude of these distortions is probably greatly exaggerated. Broadly speaking, Latin American governments are committed to extending the availability of education, health services and improved sanitation. In the case of these items the expenditure pattern would have been distorted only to the extent by which urban installations are more costly and to the extent by which the government is forced to accelerate its pace of fulfillment of these commitments. On the other hand, particularly in the case of education and health services, these are likely to be more easily staffed in urban centers. Astronomical figures are frequently cited on the cost of eliminating substandard housing in urban areas in Latin America. Sub-standard by whose standards ? In this case as in the case of employment in the services emotions have interfered with analyses. But surely favelas, callampas, and *barriadas* are undesirable by any criteria? Not so, according to William Mangin, John Turner, and other researchers. Mangin, in particular, argues that squatter settlements are not evidence of a housing problem but rather of an ongoing, spontaneous solution to the housing problem<sup>14</sup>. Turner has had the following to say :

Squatter and other forms of uncontrolled urban settlement are not « social aberrations » but a perfectly natural and very often a surprisingly adequate response to the situation. The tragedy is not that settlements exist — which is inevitable — but that many are so much worse they need have been<sup>15</sup>.

<sup>13</sup> VEBLEN, Thorstein, *Imperial Germany and the Industrial Revolution*, New York : The Macmillan Company, 1915.

<sup>14</sup> MANGIN, William, *op. cit.*, p. 85.

<sup>15</sup> UNITED NATIONS, *op. cit.*, p. 108.

The 1969 Report of the Social Progress Trust Fund of the Inter-American Development Bank made the following observations about the squatters :

Most sociologists who have studied the phenomenon of spontaneous settlements consider their residents to be highly motivated and well disposed toward social and economic changes . . . Studies indicate that their aspirations are largely middle class ; that they wish for security within the bounds of the established system and because of their striving to achieve such status, are often described as a dynamic sector of the population. The spontaneous settlements are organized communities, with home ownership as their specific prime objective <sup>16</sup>.

### *Policy*

Having taken issue with what might be termed the orthodox view of Latin America development, I should like to suggest some alternative policies or approaches.

First and foremost it is essential that phenomena be analyzed carefully rather than being prejudged on the basis of feelings or of inappropriate theoretical constructs. London Wingo, Director of Urban and Regional Studies for Resources for the Future, observed in 1969 that « we must begin with the basic proposition that we really know too little about the processes of urbanization to be able to make very reliable policies » <sup>17</sup>. The basic difficulty of the analyst is that urbanization and development are evolutionary, not lineal, processes, whereas many of our tools of analysis, for all their apparent sophistication, are essentially rooted in pre-Darwinian assumptions.

The object of policy should be to try to complement existing trends rather than dissipating energy trying to overcome the momentum of spontaneous phenomena. Before undertaking policies aimed at trend reversal it should be firmly established that the trend is demonstrably injurious. Imbalance should not automatically be construed to be detrimental as is frequently the case at the present. Development is not likely to be a smoothly unfolding, perfectly balanced process. To seek balance too energetically may well be to preclude development. Specifically, for example, policy makers should *not try to* discourage capital intensive investment, but rather should encourage the simultaneous growth of labour absorbing small enterprises, perhaps by making available to them modest amounts of venture capital. Municipal officials should collaborate from the outset with squatter settlements to assure that adequate spacing is provided in order that when public services are eventually installed that this can be accomplished at minimum cost.

Policy-makers should recognize that the rapidly growing principal urban centers are ongoing « growth poles » and should exercise extreme caution

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<sup>16</sup> INTER-AMERICAN DEVELOPMENT BANK, *Socio-Economic Progress in Latin America*, Social Progress Trust Fund Ninth Annual Report, 1969, p. 100.

<sup>17</sup> WINGO, London, « Latin American Urbanization : Plan or Process », in FRIEDEN, B. J., and NASH, W., eds., *Shaping an Urban Future*, Cambridge, Mass. : The M.I.T. Press, 1969, p. 143.

in trying to divert investment away from them. Pursuit of regional balance as a means may frustrate the process of development, if it is to be achieved at the expense of the most rapidly growing nuclei. Pursuit of regional balance might best be pursued through improvement in transportation and distribution network in order that the national market may be effectively integrated.

Preoccupation with national aggregates should give way to preoccupation with people and, in particular, to the removal where feasible of institutional obstacles to individual action. As Jane Jacobs has observed, « People who are prevented from solving their own problems cannot solve problems for their cities either »<sup>18</sup>. And we would add, nor for their nations. One possible step in this direction, suggested by Wingo would be the delegation of increasing responsibility to municipal governments<sup>19</sup>.

The continued process of rapid urbanization holds the key to economic development for many of the Latin American countries in the coming decade. The success of development efforts in the 1970's will depend on whether the policymakers attempt to frustrate urbanization or whether they act to complement the urban-based forces of change.

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<sup>18</sup> JACOBS, Jane, *The Economy of Cities*, New York : Vintage Books, 1970, p. 228.

<sup>19</sup> WINGO, *op. cit.*, p. 144.