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IMPROVING THE EFFICIENCY OF EDUCATIONAL SYSTEMS

1984 - 1994 TEN YEARS OF HELPING DEVELOPING NATIONS STRENGTHEN THEIR EDUCATIONAL SYSTEMS

**AN ASSESSMENT OF EDUCATION
AND THE LABOR MARKET
IN EL SALVADOR**

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In an area as complex and controversial as the one examined in this report, the usual point that the views expressed are those of the authors alone has special force. While there were many points of agreement in the discussions we had, there were also many points of disagreement, some of which are examined in the report itself. In the end, our hope is that this study has helped and can help to contribute to the ongoing dialogue about the direction of educational and economic policies.

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SUMMARY

This study examines the relationship between education and the labor market in El Salvador and its implications for educational and economic policy. The study addresses questions that are fundamentally important to the process of generating economic growth, combating widespread poverty, and restoring peace. Improvement in all these areas depends on better educational and employment prospects. Unfortunately, there is not agreement on how to realize such prospects, nor even on how to assess the relationships between education and employment. The ability to link educational policy to manpower needs has long been discredited and even the more modest goal of using cost-benefit analysis to indicate the best directions for educational investment faces serious criticism.

Given these conditions, an assessment of the relationship between education and the labor market cannot be undertaken as a narrow technical activity. It must examine, as we do here, past and current labor market conditions along with those contextual factors and development choices that can affect future labor market conditions. We begin with an examination of the supply of labor in Chapter 2. The labor force has been adversely affected in the 1980s by various ramifications of the armed conflict, the global economic crisis, and declining expenditures on education. Emigration has taken away many skilled workers, illiteracy is up, the quality of the formal school system is declining, and there are substantial educational inequalities of access and quality. (A more detailed analysis of these issues can be found in the USAID-financed educational sector assessment which this study complements.)

The nature of the economy and employment over recent years is examined in Chapter 3. In El Salvador, as in many Latin American countries, there was a serious economic decline during the eighties. Even with some recovery over the past few years, real GDP per capita in 1991 was lower than it had been two decades earlier, in 1970. Also, as in many other countries, employment in El Salvador has continued to shift out of agriculture into services, although less so than on average in Latin America. The private sector employs about 90% of workers, and about half of them work in the informal sector. Most jobs are very low paying; over half of all jobs pay less than the minimum wage. Some of the better jobs, like in professional and technical occupations, are created disproportionately by the public sector, although the relatively few workers employed by the private sector in these occupations are paid considerably higher than those in the public sector. Throughout the labor force, women are disadvantaged, concentrated in the more insecure and lower-paying occupations, and earning on average 81% of men's salaries, in urban areas 67%, and, for those with some higher education, 59%. Workers in rural areas earn considerably less than those in urban areas.

The labor force is not well educated -- about two-thirds have only a primary education or less, while just 7% have some higher education. In the current labor market, education seems to pay off very well. Those who have more education earn considerably more, on average, than those who have less education, as follows:

none vs. 1-3 years:	+26%
1-3 years vs. 4-6 years:	+22%
4-6 years vs. 7-9 years:	+12%
7-9 years vs. 10-12 years:	+43%
10-12 years vs. 13+ years:	+64%

Education seems to pay off, on average, even for the least educated segment of the population; among those with a primary education or less, those who are literate earn 45% more than those who are not. Nonetheless, these "returns" appear to vary substantially by context. Women and rural residents get lower returns than urban men. There is reason to believe that labor market segmentation and other rigidities are systematically disadvantaging some groups and lowering aggregate productivity. The positive returns observed cannot be considered due to education alone, since there are many other factors that affect returns. Nonetheless, the magnitude of average earnings differences provides a signal to individuals that schooling has payoffs and a signal to policymakers that the labor market values schooling highly.

The future of the labor market in El Salvador depends on an array of contextual factors and policy choices, some of which are discussed in Chapter 4. Three key contextual factors are highlighted: poverty, emigration, and reconstruction. Persistent and widespread poverty is the most serious constraint on and the major target of development strategy. Over half the households in El Salvador are classified as poor, translating into consequences like the 50% incidence of malnutrition among children 5 years old or younger found in 1988. Another factor that conditions the future is the massive outmigration of 10% to 20% of the population since the eighties, and the consequences in the loss of skilled people as well as in the remittances that stimulate the economy. The armed conflict and current reconstruction efforts continue to have a profound influence on the economy, in part through the delicate balance that must be maintained in the political arena to sustain the peace process. A host of international contextual factors will also affect the future of work in El Salvador, like the adoption of NAFTA.

Development strategy choices will also have a critical impact on the economy, labor markets, and educational policy, as discussed in Chapter 4. While there is a myriad of approaches, many analysts identify three broad strategies that are debated globally. Perhaps still dominant is a "free market" strategy that focuses on export-led growth in a climate of free trade. An often considered alternative is a "managed growth" strategy, in which exports still lead growth, but their selection and development depends on government industrial policies aimed to create new comparative advantages in fields with good employment prospects. A third alternative does not reject the need for a strong external sector, but argues that wholesale integration into the world system basically maintains inequalities and therefore there is a need for a more "internally-oriented" strategy, which, through redistributive and community development policies, reorients growth towards improving the well-being of the poor.

Perhaps some of these development debates are less sharp than they were 10 or 20 years ago. While it would be incorrect to give the impression that there has been a move to some center position, more and more some sort of managed growth strategy seems prominent as the need for both strong market institutions and government planning becomes evident. Western European governments have a history of managed growth, as does Japan, and the change of political administration in the United States has led to more discussion of such policies. Some argue that managed growth strategies have been key to the economic success of newly industrializing Asian nations and ECLAC is strongly recommending similar strategies in Latin America. Nonetheless, managed growth has considerable opposition and even its proponents disagree about what it means in practice.

Development debates in El Salvador reflect this global debate, but of course are rooted in the specifics of national history. The directions that will be taken within El Salvador in the near and medium term future are very uncertain. Despite these uncertainties, we must select educational policies. One thing that helps is that there seems to be agreement across development strategies that improvements in education and training are of fundamental importance to development. In a free market strategy, education and training are necessary to produce the skilled labor needed to compete in an increasingly high-tech economy. The managed growth approach depends on the ability of the workforce to rapidly absorb and implement the technological changes required by more sophisticated products. Internally-oriented strategies can require advanced technologies in production and skills for more participatory management in the workplace. All strategies argue the need for an educated populace to further more democratic governance.

The need for educational improvements becomes even more salient when we examine the extent to which El Salvador is disadvantaged in modern economic competition. Although comparable data are scarce, El Salvador generally seems to have a less educated workforce than most Latin American countries at similar economic levels. Ten to fifteen years ago, when somewhat comparable data were available, El Salvador's workforce had a relatively high illiteracy rate, a low average level of schooling, and one of the lowest proportions who had completed some higher education. It is likely that over the past decade El Salvador's relative position has worsened.

The conclusions and recommendations of this report should be seen as tentative. As mentioned above, methodological problems and debates about data and interpretations have led to a re-thinking of how to study the connections between education and work, and a need to be more modest in making policy claims, explicitly recognizing the essentially political and ideological character of all our policy debates. Nonetheless, from our perspective, the information and analysis discussed in this report have very strong policy implications. We also recognize that there are other interpretations of the same information. Therefore, analyses such as ours are most useful if they are part of a larger, continuing, democratic, participatory policy dialogue.

Recommendation #1 focuses on the demand side of the labor market, that is, on economic and employment policy. It is based on a managed growth perspective which argues that it is not possible to improve a nation's education and training system if we do not concomitantly create more and better jobs. It has been the global failure of laissez-faire policies to create enough jobs and better jobs that has much of the world looking towards other development strategies. Government policies in El Salvador should offer incentives to the private sector to develop new export advantages in areas that will create better jobs (than those created, e.g., by the emphasis on maquilas). Policies which give labor more involvement in decision-making can help increase productivity as can the elaboration and better enforcement of laws that counter discrimination against women workers.

The remaining recommendations deal with the supply side of the labor market, that is, education and training policy. Recommendations #2 and #3 focus on educational finance. There is a need for substantially more resources at all levels of education. The rapid decline of resources for education in the eighties has resulted in an educational system that appears to be one of the most disadvantaged in Latin America -- El Salvador has lower enrollment ratios, lower educational expenditures in relation to GDP, and lower educational expenditures per pupil at all educational levels than most similar countries. We endorse the recommendation of the educational sector assessment that expenditure effort be restored to its 1980 level, about 4% of GDP, which will require a doubling of current efforts. These resource needs will require significantly greater taxation and international assistance -- very few additional resources can be obtained from shifts of government resources, user fees, community contributions, or greater privatization.

Recommendation #4 is to focus public education on a broad academic as opposed to vocational education. Formal schooling should focus on imparting general skills in language, mathematics, problem-solving, communication, adaptability, teamwork, and reflective, critical thinking. This curriculum does not have to be abstract; it is done best when made relevant to people's lives. The best vocational education in the modern world is a good general education that prepares people to think and learn. The government of El Salvador should cut back on formal vocational education. Short-run vocational training should be financed by the private sector, with the public sector helping to organize and manage the necessary consortia of private sector enterprises.

Recommendations #5 through #8 focus on the need for resources at the basic, middle, and higher levels of education and on the prioritization among them. The highest priorities are improvements in basic education, preschool education, and adult education. Resource allocations for teachers, materials, and facilities to basic education are so low that it was estimated that just to provide a minimally decent basic education for all would require doubling the Ministry of Education's total budget. The most immediate priority, given widespread malnutrition among children, should be an adequate school lunch program which will help attendance and learning. Middle and higher levels of education have been excessively privatized and what remains of them in the public sector is too often of very low quality. A better economic future depends on more highly educated

workers and therefore, despite the priority of basic education, public investment must be increased at higher educational levels as well. This is feasible if a 4% allocation of GDP for education is enacted

Finally, recommendation #9 argues for an expanded and reformulated MIS and policy analysis capability within the Ministry of Education. The informática group within the MOE has not had sufficient capacity to gather and analyze basic data. Hardly any useful information is collected on expenditures and costs. Useful data on education and the labor market are collected in the household survey of MIPLAN, but few resources are available to analyze them. These data could be made much more useful with the addition of a few questions to the annual survey. However, real MIS capabilities -- which include the ability to undertake studies and analyze policies -- go beyond data and technical abilities. None of the policies argued for in this report can be decided on the basis of information -- the information itself is disputed, and the same information can be interpreted very differently. Thus, the building of a useful MIS and policy analysis capacity must recognize the political nature and interpretation of information. This implies that an MIS division has some freedom and independence of judgement, an orientation toward the promotion of debate among different points of view, and negotiation skills to help develop policy solutions.

Democratization in El Salvador, as in other countries, will depend on the democratization of information and the greater opening of politics to participatory and conflictual processes. MIS systems that pay attention to qualitative contextual issues and debates can become tools for helping to keep a long-term policy dialogue going. If developed to function in a decentralized and participatory way, MIS systems can be tools for strengthening democratic governance. In the same way, the information and suggestions in this report need to be examined as part of a broad, ongoing democratic dialogue about educational and economic policy directions.

1. INTRODUCTION

El Salvador is at a critical juncture. The end of the armed conflict, perhaps the beginning of an economic turnaround after a long decline, and a rapidly changing global context offer problems as well as possibilities for a better future. Most people agree that education is a key to that better future, but the questions are what kind of education and what changes are needed to unlock the door. To help determine how to improve education and training, an assessment of the labor market is essential. This is not to claim that educational policy should be directed exclusively, or even primarily, by workplace considerations, but simply that those considerations are important.

In this study, we review the structure and performance of the labor market in recent years, as well as consider a range of contextual factors and development policy choices that will condition its future. We then explore the implications of this labor market assessment for the improvement of education and training system policies in El Salvador, contributing to and complementing the educational sector assessment sponsored by USAID that was undertaken at the same time as this study. The implications for complementary policies, outside the education sector, are also considered. In the remainder of this introduction we briefly discuss some of the methodological issues important to undertaking a labor market assessment.

There is no longer any clear guidance about how to assess the relationship between education and the labor market. Dominant methodologies of the past have been thoroughly criticized and increasingly rejected, and alternative approaches are just beginning to be developed. In the late 1950s and early 1960s, the development of human capital theory was used to justify a manpower forecasting methodology that projected GDP by sector, derived labor force needs from current relationships between labor and output, and then translated all this to quantitative estimates of the educational output necessary to meet workforce and GDP predictions.

Although manpower forecasting looked sophisticated, most economists branded the whole approach as nonsense from its inception.¹ It made no sense to forecast future labor needs based on the current inefficient use of labor. Manpower forecasting ignored the market dynamics that are constantly changing the best ways to organize production, it paid no attention to the costs or benefits of education, and, in practice, the forecasts were very inaccurate.²

While the practice of manpower forecasting has continued in many countries, the mainstream economics profession has consistently campaigned against it. The argument has been that a labor market assessment analyze the type of labor market signals embodied in cost-benefit analyses, which give less precision than manpower forecasting about what to do in education, but can provide guidance as to policy directions.³

Cost-benefit analyses, however, have many fundamental problems of their own.⁴ What is usually used to measure the benefits of education, wages as a proxy for productivity, is

at best one small piece of all the benefits that economists say should be included to judge whether education is efficient.⁵ Without including all individual and social benefits, from better health to art appreciation to a better functioning democracy and lasting peace, calculated rates of return do not offer even approximate indicators of the relative social value of alternatives. Moreover, there is little reason to believe, in the imperfect markets of the real world, that wages reflect productivity, or that costs measure social value. Therefore, calculated rates of return may say something about the incentives facing individuals, but, under these circumstances, rates of return are of doubtful social or developmental significance.

Even if wage benefits were of interest, the need to forecast the wage increases due to education decades into the future in order to calculate rates of return puts the analyst in the same problematic terrain as the manpower forecaster. Moreover, even if we were simply interested in current wage benefits, our ability to separate out the effect of education from that of other factors on wages is rudimentary, at best. Taken together, these criticisms have made even its practitioners recognize the flawed character of cost-benefit analysis, how the "number and arbitrariness of its assumptions"⁶ may make it unusable, or how altering those assumptions can "yield enormous changes" in its results.⁷

The field is therefore left with considerable uncertainty as to how to assess the connections between education and the labor market. Currently there is attention to approaches that continue to analyze labor market signals, but which are broader in the types of data studied, include more analysis of qualitative, contextual factors, and are more modest in what kinds of conclusions can be drawn.⁸ Such an approach is taken in the study.

It should be underscored that our methodological failures mean that much less precise guidance for policy can be offered than has often been promised. Twenty-five years of serious attention to the policy sciences across fields has reinforced the modest expectations that many had from the beginning about the potential of social science based research to clarify and help make choices. Rather than clear quantitative guidance, policy studies like this can provide more qualitative understandings, interpreting quantitative and qualitative information within the context of current policy debates. The explicit recognition of debates about information and its interpretation can help orient policy studies towards informing and facilitating democratic and participatory social choice processes.⁹ This study, and the educational sector assessment in which it has been embedded, have tried to follow this orientation, in gathering data, in getting feedback, and in disseminating results.

We begin in Chapter 2 with a discussion of the supply of labor, looking at the economically active population and the level of their education and training. This chapter provides only a brief overview of the topic since it is explored more fully in the USAID educational sector assessment.¹⁰ Chapter 3 provides an analysis of the principal focus of the study, the nature of the current labor market and its recent past, with an emphasis on the role and status of educated workers within it. Chapter 4 then examines some of the qualitative, contextual factors that will shape the future of the labor market.

It begins with a discussion of poverty, emigration, and reconstruction, and concludes with an analysis of the debates about development strategy and their implications for education and the labor market. In conclusion, Chapter 5 synthesizes the labor market assessment and explores its implications for education and training policies. Throughout the study we pay attention to the inequalities between men and women, and between urban and rural areas of the country. We were very fortunate in this study in that recent labor market data and some good analyses of them were already available.¹¹ Moreover, the Ministry of Planning provided us with additional analyses of their 1991-92 survey. Much of these data have not been analyzed before and appear for the first time in this report. (Some of these data analyses also appear in the education sector assessment.)

2. THE SUPPLY OF LABOR

The supply of labor in any society depends on many contextual factors, including: population growth; the distribution of population by age, gender, and region; migration; health; mortality; war; poverty; choices and attitudes toward work; gender and minority group discrimination; and, by no means least, the success of formal, nonformal, and informal educational systems. Such complexities make predictions of the supply of labor as untrustworthy as those of manpower forecasts. It is widely acknowledged that predicting even what may be the simplest of the factors above, population growth, is very inaccurate because of the many social factors on which it depends. What is possible and useful is to examine the supply of labor in recent years and discuss some of the contextual factors that are shaping it.

Through the 1960s and 1970s, El Salvador had a very high rate of population growth, 3%/year (1960-78), which contributed to making it the most densely populated country in Latin America. By the late 1980s, the population growth rate had declined to 2.7%, still much higher than the average Central American rate of 2.2%. However, the large-scale emigration in the 1980s (see Chapter 4) lowered the growth rate of the resident population in El Salvador to 1.4%/year between 1978 and 1988. Over time the population has become somewhat younger and more urban. In 1971, 18% of the population was 15-24 years of age, whereas in 1991, 21% was in this age bracket. In 1970, 39% of the population lived in urban areas; by 1989, it was about half.

In El Salvador, the population of labor force age is defined to include those who are 10 years old or older. The active labor force, or economically active population, is defined as those of labor force age "who were employed either in a remunerated or unremunerated activity during the week preceding the survey or who were not employed but actively sought employment during the preceding month."¹² The proportion of the economically active population to those of labor force age is the labor force participation rate (LFPR), which is an indicator of labor supply.

There are limited and not strictly comparable data available on labor force participation rates.¹³ Table 2.1 shows urban labor force participation rates for selected years between 1986 and 1992. The decline and rise in overall LFPRs may be a statistical artifact. The data for 1986 are for metropolitan San Salvador only, where LFPRs are generally higher than in other urban areas, especially for women. The data for 1988 were collected at a different time of the year than in the other three surveys, making the 1988 estimates lower than the others. Nonetheless, a generally increasing trend in LFPRs for men and women can be observed from this data. The 1992 survey was done on a national sample and the national LFPR was 51.6%, 70.6% for men and 35.0% for women. Comparing this to the 1992 data for urban areas in Table 2.1, we can infer that for men, rural LFPRs are considerably above urban LFPRs, while for women, the reverse is true, urban LFPRs are far larger than rural LFPRs.

TABLE 2.1
URBAN LABOR FORCE PARTICIPATION RATES, 1986-1992
 (in percent)

	1986	1988	1989	1991	1992
Overall	49.9	47.7	51.5	52.7	54.2
Male	62.5	62.7	65.8	64.2	66.2
Female	40.2	35.6	40.4	43.1	44.5

Source: Gregory (1993)

Note: 1986 data is for metropolitan San Salvador only

Table 2.2 gives a picture of the evolution of LFPRs among the most comparable survey years -- 1986, 1991, and 1992 -- for metropolitan San Salvador only. It supplements the data above by showing LFPRs by age category. For men, the most rapid growth in LFPRs is for 15 to 24 year olds, for women, it is for 10 to 19 year olds. Again, data problems require caution in interpretation -- for example, the increase in participation rate for 15 to 19 year old women from 1991 to 1992 seems excessive.¹⁴ Nonetheless, what stands out is the strong and growing participation of women in the labor force, in San Salvador, from 40.2% in 1986 to 48.8% in 1992. About 45% of the urban labor force in El Salvador is female, one of the highest proportions in Latin America.

TABLE 2.2
LABOR FORCE PARTICIPATION RATES BY SEX AND AGE,
METROPOLITAN AREA, 1986, 1991, AND 1992

Age	Males			Females		
	1986	1991	1992	1986	1991	1992
10-14	2.0	7.0	7.0	2.8	4.6	7.9
15-19	28.5	38.2	40.9	24.2	26.9	31.6
20-24	71.0	76.2	77.8	54.8	57.2	57.6
25-29	91.5	94.1	93.7	59.4	67.3	67.1
30-39	95.6	97.0	96.8	60.5	73.6	74.7
40-49	95.3	97.3	97.2	57.8	66.5	69.6
50-59	87.4	91.6	90.7	37.7	56.5	51.1
over 59	50.5	48.2	49.4	18.3	23.8	24.3
Overall	62.5	64.2	66.2	40.2	47.4	48.8

Source: Gregory (1993)

Gregory (1993) offers two explanations for the rapid growth of women's LFPRs: the armed conflict, with more men in the armed forces and migrating, opened up new opportunities for women; and declining real wages forced women into the labor market for survival and income maintenance. While women participate in the labor market less in other urban areas and in rural areas, these same factors seem to have increased women's participation over time there as well. The experience of other countries indicates this trend will continue, making women an ever more critical component of the paid labor force, and an important key to El Salvador's future.

In a modern society, perhaps the most critical part in labor supply is played by the formal, nonformal, and informal educational structures which shape the skills and attitudes of the individuals who compose the workforce. The population of El Salvador has a relatively low level of formal schooling. Table 2.3 shows the amount of schooling completed by the over 10 population in 1992, broken down by age groups. Overall, almost a quarter (24%) of the population has had no schooling, 71% has a primary education or less, and only 5% has completed some higher education. Women generally have lower levels of education than men: 27% vs. 22%, respectively, with no schooling; 73% vs. 70% with 6 years or less; and 5% vs. 6% with higher education. Younger age groups have clearly been getting more education than older groups did and there is some closing of the gap between men and women. Nonetheless, inequalities continue and levels of schooling remain relatively low.

While the educational level of the current labor force is of great importance, the key issue is what the current educational and training system is doing for the labor force of the future. The educational sector assessment (USAID, 1994) offers a study of the educational system in depth. In the remainder of this chapter, a few dimensions of system performance will be discussed.

Table 2.4 gives gross enrollment ratios for primary, secondary, and higher education from 1975 to 1989. Primary school enrollment ratios stagnated between 1975 and 1984, jumped a little between 1984 and 1987, and stayed the same for the next two years. Secondary and higher enrollment ratios grew over the 1975 to 1987 period, but dropped off from 1987 to 1989. Despite improvements over time, enrollment ratios are generally below those in other Latin American nations. Moreover, the gap may be growing; in 1979, the average secondary school enrollment ratio in Latin America was 20 percentage points higher than that of El Salvador, by 1989 the difference was 25 points.¹⁵

TABLE 2.3
TOTAL POPULATION BY YEARS OF SCHOOLING COMPLETED - 1992
 (in percent)

Age	Population (in thousands)	TOTAL					
		None	1-3	4-6	7-9	10-12	13+
Overall	3,783	24	22	25	14	9	5
10-14	731	10	34	42	14	0	0
15-19	594	12	16	24	28	18	2
20-24	434	16	15	20	18	18	12
25-29	353	18	16	21	17	16	11
30-39	561	24	20	23	13	12	8
40-49	414	33	26	22	6	7	6
50-59	306	46	26	17	4	5	3
60+	389	60	22	11	2	2	2

Age	Population (in thousands)	WOMEN					
		None	1-3	4-6	7-9	10-12	13+
Overall	2,017	27	23	25	15	9	6
10-14	361	10	36	41	13	0	0
15-19	307	11	16	25	29	16	2
20-24	242	17	15	20	20	17	12
25-29	197	21	16	21	20	16	12
30-39	314	27	18	24	15	12	11
40-49	221	37	25	24	8	8	7
50-59	165	50	27	19	4	6	4
60+	211	65	24	13	2	2	33

Age	Population (in thousands)	MEN					
		None	1-3	4-6	7-9	10-12	13+
Overall	2,456	22	23	25	15	9	6
10-14	369	10	36	41	13	0	0
15-19	287	12	16	25	29	16	2
20-24	192	16	15	20	20	17	12
25-29	156	15	16	21	20	16	12
30-39	248	20	18	24	15	12	11
40-49	193	28	25	24	8	8	7
50-59	141	40	27	19	4	6	4
60+	179	55	24	13	2	2	3

Source: El Salvador Multiple Use Household Survey (MIPLAN).

TABLE 2.4
GROSS ENROLLMENT RATIOS

	OVERALL		
	Primary	Secondary	Higher
1975	74	19	7.8
1980	75	24	4.3
1984	74	27	15.7
1987	79	29	17.7
1989	78	26	17.1

	WOMEN		
	Primary	Secondary	Higher
1975	73	17	5.3
1980	75	23	2.6
1984	75	28	13.3
1987	81	30	14.8
1989	78	26	14.4

	MEN		
	Primary	Secondary	Higher
1975	76	21	10.3
1980	75	26	6.1
1984	73	25	18.3
1987	77	27	20.8
1989	77	26	19.8

Source: UNESCO Statistical Yearbook, 1991

Women have relatively recently attained or exceeded men's enrollment ratio in primary and secondary schooling, yet have a long way to go to counter the inequalities of the past. Women have lower school attainment than men in the population, as mentioned above, and it is changing slowly. Nationally, in 1985, 25.2% of men 15 and older had completed the full 9 years of basic education, as opposed to 21.5% of women; for urban areas, 40.8% of men and 33.1% of women had finished basic education. By 1990 in

urban areas, changes in the level and in the gap were slight; the comparable figures were 41.4% for men vs. 34.6% for women. The enrollment ratio for women in higher education is lower than for men, as is reflected in the distribution of higher education in the population: nationally, in 1985, 2.1% of men 20 and older had four or more years of higher education as compared to .7% for women (4.0% vs. 1.3% in urban areas). Although the late eighties saw a rapid expansion of higher education, these differences persisted: for urban areas in 1990, 5.6% of men and 2.0% of women had completed four years of higher education.¹⁶

The problems of relatively low enrollment ratios, inequalities between men and women, and inequalities between urban and rural areas, are exacerbated by the generally low and declining quality in all parts of the system. Repetition and dropout rates historically have been high and are getting even worse. In 1979, about 58% of children starting first grade finished fourth grade, while by 1990 this had dropped to 50%. Over the same period, the Latin American average was higher and grew, from 75% to 85%. In El Salvador, the armed conflict, the 1986 earthquake, and a deteriorating economy hurt education; in part, this damage was reflected in the decline in government effort in education from 1980 to 1992, embodied in a nearly 50% decrease in real educational expenditures per primary school student, a 68% fall in primary school teacher salaries, and a sharp drop in the share of GDP devoted to education by the central government, from 3.6% to 1.5%.¹⁷

For basic education, next to nothing is spent on learning materials, teachers salaries are very low, the physical infrastructure is decaying, and the lack of attendance by students and teachers is a major problem. Upper secondary education (educacion media) has similar problems, as well as having been fractured into about a dozen different specializations in the 1967 reform. About 50% of students are in commercial, 30% in academic, and 10% in industrial tracks, although all can, in theory, go on to higher education. At the higher education level, technological institutes provide training in a variety of technical and professional areas. Over recent years, there has been a sharp decline in enrollments (a 60% decrease from 1985 to 1989). The considerable expansion of university education in the 1980s (with a 34% increase in enrollments from 1984 to 1988) is generally believed to be in low quality institutions, often providing almost a remedial secondary education. The fields studied in universities in 1988 were principally sciences and humanities (27% of students), economics and administration (25%), engineering and architecture (18%), medicine (12%), and law and social science (9%). The agricultural sciences only had 3% of enrollments, as did dentistry; chemistry and pharmacy had 2%.¹⁸

Nonformal and informal (on-the-job) education and training are also key to labor force formation, although there is little information available on the latter. The extent of illiteracy does again indicate declining educational quality and effort. In 1978 the illiteracy rate was 33%, by 1985 it had dropped to 28%, but by the end of the decade it had risen to 33% again. In 1991, the Ministry of Education spent only about 2% of its budget on nonformal education for adults.¹⁹ The loss of skilled workers to emigration has made this neglect even more problematic. USAID funds a large-scale effort in adult vocational training, the Foundation of Entrepreneurs for Educational Development

(FEPADE). From 1987 to 1991 FEPADE trained over 13,000 students in short-term courses in a wide variety of areas, and reported that 90% of them were employed in export-oriented industries. Between 1991 and 1993 another 43,000 students were reported trained; FEPADE reports that they were generally employed subsequent to the training.²⁰

In summary, El Salvador has an increasingly urban, young, and female labor force. The quality of that labor force has adversely affected during the 1980s due to many factors, such as the armed conflict, a global economics crisis, and declining expenditures on education. Illiteracy is up, formal school quality is declining, inequalities in access to schooling are substantial and as much as 20% of the population has emigrated, generally the more skilled. There is little systematic effort to overcome these problems. For El Salvador to develop its internal economy and to compete externally will require considerably more attention and resources than are devoted at present to ensure a higher quality labor force.

3. THE DEMAND FOR LABOR

In this chapter we examine the demand for labor. Following a brief review of economic activity in El Salvador over the last decade, we present a picture of the current workforce, and, when possible, changes in the workforce over time, by economic sector, occupation, public vs. private employment, and formal vs. informal sector employment. In addition to employment, variations in unemployment and in earnings will be discussed. This analysis of the workforce will then serve as a context for an examination of how educational differences are related to employment and earnings differences. In all comparisons, when data permit, differences between urban and rural areas, and between men and women, will be considered.

There are, of course, many cautions in the interpretation of these data, especially related to sampling problems. The Ministry of Planning's Multiple Use Household Surveys from 1985 to 1991-92 were the main source of information regarding employment. Comparisons between surveys over time are problematic due to the different methodological and sampling strategies used for the various surveys. The 1985 and 1991-92 surveys are the only ones drawn from a national sample. While the 1991-92 survey was conducted after the signing of the peace accords, security considerations prevented sampling in some areas. For the 1985 survey, the security conditions were even less favorable, and extrapolating national results is problematic. Surveys in the intervening years concentrated on samples from relatively secure urban areas, although seasonal differences in when they were applied also constrain interpretation.

Nonetheless, much of the 1992 data reported here has not been published before and provides some quite interesting information on the nature of El Salvador's workforce.²¹

OVERVIEW OF ECONOMIC ACTIVITY

As in many nations in Latin America and elsewhere, in the late 1970s El Salvador confronted a downturn in economic growth. The data in Table 3.1 show that while real GDP grew on average 5.5%/year from 1970-78, it declined sharply from 1978-82, on average 6.1%/year.²² Causes included a weak global economy, declining export earnings, an associated debt crisis, and the many repercussions of the armed conflict.

Much of Latin America experienced some recovery in the mid-1980s (with an average annual GDP growth rate in Latin American countries of 3.6% from 1983 to 1986) followed by stagnation in the late-1980s (annual GDP growth averaged 1.5% from 1986-1989).²³ In El Salvador, however, there was little recovery in the eighties, with the economy basically stagnating, averaging 1.6% annual growth in GDP from 1982 to 1989. Only in recent years has there been an improvement in annual GDP growth, to about 3.5% in 1990 and 1991. Factors contributing to the recovery were the winding down of the conflict, the still considerable financial aid received from abroad (chiefly the U.S.), remittances from emigrants, and a changing global economic picture. Nonetheless, by 1991, GDP was still about 8% below what it had been in 1978, thirteen years earlier.

This picture becomes much more severe when looked at on a per capita basis (see Table 3.1). In 1991 GDP/capita was 22% below its 1978 level and still 6% below its level in 1970.

TABLE 3.1
GDP AND GDP/CAPITA OVER TIME
(in millions of 1962 colones)

	GDP	GDP/Capita
1970	2,394	674
1978	3,664	811
1979	3,602	773
1980	3,284	727
1981	3,016	658
1982	2,847	616
1983	2,870	616
1984	2,936	624
1985	2,994	628
1986	3,013	822
1987	3,094	627
1988	3,144	625
1989	3,177	618
1990	3,285	627
1991	3,399	636

Source: Economic Commission for Latin America and the Caribbean, *Statistical Yearbook*, 1992

The changing composition and magnitude of economic activity over time greatly affects the labor market. Table 3.2 shows the relative contribution of different economic sectors to total GDP from 1979 to 1991. The dominant shift is the sharp decline in agriculture, from accounting for 29% of GDP in 1979 to 10% in 1991. This was accompanied by a substantial rise in the service-producing industries, which accounted for about half (52%) of GDP in 1979 and increased to about two-thirds (67%) of GDP in 1991. These changes parallel a global shift out of agriculture to service industries and reflect factors like the eighties' decline in traditional agricultural commodity prices. Factors specific to El Salvador, like the agricultural losses imposed by the war, further impelled these changes.

Goods-producing industries also became relatively more important to economic output over the 1979-91 period, as reflected in the manufacturing sector's share of GDP which grew from 15% to 19%. Within the service industries, the largest sector, commerce, accounted for much of the growth, with its share of GDP growing from 23% in 1979 to 35% in 1991. Government services, the second largest service sector, despite increasing in the early eighties, shows a declining share over the period as a whole. Government services are but a piece of the total government share of GDP (not shown in Table 3.2), which fell from about 16% in 1979 to 12% in 1991. Although the non-agricultural

sector's share of GDP increased, its growth was also hampered by the conflict in the 1980s, which, among other things, created an uncertain investment climate and channeled considerable domestic resources and foreign aid to military-related activities.

TABLE 3.2
GDP BY ECONOMIC SECTOR

	% SHARE OF GDP					
	1979	1980	1984	1988	1990	1991
Agriculture	29	28	20	14	11	10
Goods - Producing	19	18	19	21	22	22
- Mining	0	0	0	0	0	0
- Manufacturing	15	15	16	18	19	19
- Construction	4	3	3	3	3	3
Service - Producing	52	53	60	66	68	67
- Public Utilities	2	2	2	2	2	2
- Commerce	23	23	26	32	35	35
- Transportation/ Communications	3	4	4	4	5	5
- Finance	4	3	3	3	2	2
- Housing	4	4	5	6	6	6
- Personal Services	7	7	8	10	10	10
- Government Services	9	10	12	9	8	7
Total (in percent)	100	100	100	100	100	100
Total (Millions of colones)	8,607	8,917	11,028	27,365	41,057	47,792

Source: Economic Commission for Latin America and the Caribbean. Statistical Yearbook.

Note: GDP % based on value at current market prices

EMPLOYMENT BY ECONOMIC SECTOR

Table 3.3 gives the distribution of total employment by economic sector in 1992. Overall, 36% of the labor force is employed in agriculture, 22% in goods-producing industries, and 41% in service producing industries. Women are twice as likely to be working in service industries as men (62% vs. 31%), while men are three times as likely to report they are employed in agriculture (48% vs. 15%).

Combining the 1991 and 1992 information in Tables 3.2 and 3.3 gives a rough idea of the differences by industry in labor intensity in producing output: agriculture is the most labor intensive, employing 36% of the labor force to produce about 10% of GDP. Less labor intensive are the goods-producing industries, employing 22% of the labor force to produce about 22% of GDP, and less labor intensive still are the service industries (although there is great variation among them), employing 41% of the labor force to produce about 67% of GDP.

TABLE 3.3
EMPLOYMENT BY ECONOMIC SECTOR - 1992
 (in percent)

	Total	Male	Female
Agriculture	36	48	15
Goods - Producing	22	22	22
- Mining	0	0	0
- Manufacturing	17	15	22
- Construction	5	7	0
Service - Producing	41	31	62
- Public Utilities	0	1	0
- Commerce	17	11	28
- Transportation/Communications	3	5	1
- Finance	1	1	1
- Services	20	13	32
Total (in percent)	100	100	100
Total (thousands)	1,782	1,134	647

Source: El Salvador Multiple Use Household Survey (MIPLAN).

Table 3.4 gives an aggregated picture of the longer term change in employment from 1960 to 1980. The decline in agriculture's share of GDP over time is mirrored in its declining share of employment, from 62% in 1960 to 43% in 1980 to 36% in 1992 (the latter figure from Table 3.3). While the other sectors are not comparable across tables, Table 3.4 also shows the modest longer term growth of employment in industry and the much more substantial rise in employment in services.

TABLE 3.4
EMPLOYMENT BY ECONOMIC SECTOR OVER TIME
 (in percent)

	1960			1970			1980		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Agriculture	62	72	7	56	69	5	43	56	5
Industry	17	16	25	14	13	18	19	20	18
Services	21	12	68	30	18	76	38	24	77
Total (in percent)	100	100	100	100	100	100	100	100	100

Source: Economic Commission for Latin America and the Caribbean. *Statistical Yearbook*, 1992.

Table 3.4 also shows the evolution of differences in employment across broad economic sectors between men and women. Much smaller proportions of women than men are reported working in agriculture (although many women who work in agriculture are not counted).²⁴ Over the entire period women predominantly worked in services. Already

by 1970, about three-quarters of employed women were working in services.²⁵ Much of the employment growth in services therefore has come from men leaving agriculture, doubling their share of service jobs over the 1960 to 1980 period.

EMPLOYMENT AND OCCUPATION

The distribution of occupations among employed persons for 1992 is given in Table 3.5. Nationally, agricultural laborers are by far the largest single occupational group, accounting for 35% of the workforce. Sales workers and artisans/operatives come next, each accounting for 15% of the workforce. Professional and managerial occupations only employ 6% of the labor force.

TABLE 3.5
EMPLOYMENT BY OCCUPATION - 1992
(in percent)

	National			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Professionals	5	5	7	9	10	9	1	1	1
Managerial	1	1	0	1	1	1	0	0	0
Office Employees	6	5	8	11	10	12	1	1	2
Sales	15	7	28	20	13	29	9	2	27
Services	11	5	21	15	7	24	6	3	14
Agricultural Laborers	35	47	15	9	14	4	65	75	37
Non Agr. Laborers	6	4	10	8	5	11	4	3	9
Artisans/Operatives	15	19	10	21	29	10	10	10	9
Transport Workers	4	6	1	5	9	1	2	3	0
Not Identified	1	2	0	1	2	0	1	1	0
Total (in percent)	100	100	100	100	100	100	100	100	100
Total (in thousands)	1,782	1,134	647	947	515	432	834	620	215

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Differences between urban and rural areas are substantial, as can also be seen from Table 3.5. About two-thirds (65%) of rural workers are agricultural laborers. In urban areas employment is more evenly distributed across occupational categories: 21% are artisans/operatives, 20% are sales workers, 15% are service workers, and 11% are office employees. Professional and managerial workers are 10% of the urban labor force.

Differences between the occupational employment of men and women are also substantial, as shown in Table 3.5. Nationally, women are much more heavily

concentrated than men in sales, service, and non-agricultural laborer occupations, while men are much more concentrated in agricultural laborer and artisan/operative occupations. In rural areas, fully 75% of the male workforce is agricultural laborers. Also, some important differences cannot be seen from the proportional data given in Table 3.5. For example, for managerial jobs in urban areas, a key high-reward occupation, the absolute numbers show that men outnumber women 3:1 while for the overall urban labor force men only outnumber women 1.2:1.

EMPLOYMENT AND EMPLOYMENT STATUS

Table 3.6 shows the composition of 1991 urban employment characterized by employment status. Salaried workers account for 58% of the workforce -- 38% being permanent workers and 20% with temporary jobs. The self-employed are about one-quarter of the workforce, while employers, unpaid family workers, and domestic workers together account for 14%.

TABLE 3.6
EMPLOYMENT STATUS - 1991
(in percent)

	Total	Male	Female
Employer	3	4	1
Self Employed	27	19	37
Unpaid Family Worker	6	4	9
Permanent Salaried	38	44	31
Temporary Salaried	20	29	10
Domestic	5	0	12
Total (in percent)	100	100	100
Total (in thousands)	890	485	405

Source: El Salvador Multiple Use Household Survey (MIPLAN)
Note: 1991 survey is urban only.

The employment status for men and women is substantially different. The proportion of men who are employers is four times the proportion for women, while the proportion of women who are self-employed is almost twice the proportion for men. A significantly smaller percentage of women than men are salaried workers, 41% vs. 73% respectively. The proportion of women who are unpaid family workers is over twice as large as that of men, and all the domestic workers are women.

For both men and women, employment status relates to whether one works in the formal or informal sector (employment in these sectors is discussed more fully below). 95% of men and 99% of women who are self-employed work in informal settings. Permanent salaried workers of both genders are predominantly located in formal settings (88% of men and 91% of women).²⁶

EMPLOYMENT AND THE PUBLIC AND PRIVATE SECTORS

The distribution of employment between the public and private sector by occupation and gender can be seen in Table 3.7. Only 10% of the workforce is employed in the public sector. Most noteworthy are the much higher proportions of professional workers in the public sector, 31% vs. 3% in the private sector, and of office employees, 27% vs. 4%. In terms of absolute numbers, 54% of the professional jobs in the country are generated by the public sector.

TABLE 3.7
EMPLOYMENT IN PRIVATE AND PUBLIC SECTOR
BY OCCUPATION - 1992
(in percent)

	Total	Private		Total	Public	
		Male	Female		Male	Female
Professionals	3	3	3	31	23	47
Managerial	1	1	0	1	1	0
Office Employees	4	3	6	27	23	33
Sales	16	8	31	1	0	1
Services	10	4	22	16	17	14
Agricultural Laborers	39	52	16	4	5	2
Non Agr. Laborers	7	4	11	2	2	1
Artisans/Operatives	16	19	11	10	14	2
Transport Workers	4	6	1	5	7	0
Not Identified	1	1	0	5	8	0
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	1,611	1,024	588	170	111	59

Sources: El Salvador Multiple Use Household Survey (MIPLAN)

The 10%/90% split in employment between the public and private sector holds true for men and women, but the occupational profile differs by gender, as shown in Table 3.7. In the private sector men are concentrated in two occupations, agricultural laborers and artisan/operatives (71% of total). Over half (53%) of the women employed in the private sector are employed in sales or as service workers.

Nearly half (47%) the women employed in the public sector are professionals (many in education and health care). While women compose just 35% of public sector employees, women are employed as professional workers in larger numbers than men (by about 10%). The other major occupation for women in the public sector is office employee, 33% vs. 23% for men.

Table 3.8 shows how public and private employment differs in urban and rural areas. Urban employment represents about half (53%) of total employment in El Salvador. The private sector employs 85% of the urban employed and 97% of the rural employed. Women make up almost half (47%) of private sector employment in urban areas and 25% in rural areas.

TABLE 3.8
PRIVATE AND PUBLIC SECTOR EMPLOYMENT
IN URBAN AND RURAL AREAS - 1992
(in percent)

	Urban						Rural					
	Total	Private		Total	Public		Total	Private		Total	Public	
		Male	Female		Male	Female		Male	Female		Male	Female
Professionals	5	6	4	34	26	48	1	1	1	14	10	32
Managerial	1	1	1	1	1	0	0	0	1	1	1	0
Office Employees	7	6	8	30	26	34	1	1	28	12	11	19
Sales	24	16	33	1	1	1	9	2	14	0	0	1
Services	15	6	26	14	15	13	6	3	38	23	23	22
Agricultural Laborers	10	16	4	1	2	1	67	77	9	17	17	16
Non Agr. Laborers	9	6	12	1	2	1	5	3	9	3	3	4
Artisans/Operatives	22	32	11	9	14	2	10	10	0	11	13	4
Transport Workers	6	9	1	5	8	0	2	3	0	5	6	1
Not Identified	0	1	0	3	5	0	1	1	0	14	17	0
Total (in percent)	100	100	100	100	100	100	100	100	100	100	100	100
Total (in thousands)	806	428	378	141	87	54	806	596	210	29	23	5

Source: El Salvador Multiple Use Household Survey (MIPLAN)

The occupational profile of private sector employment differs considerably between rural and urban areas. For example, in rural areas the percentage of women in the private sector employed in sales is half the percentage in urban areas, while in rural areas the percentage of women who are office employees is twice the percentage in urban areas. Women professional workers are a larger part of the private sector employment in urban areas as compared to rural areas (4% vs. 1%). For men, differences between urban and rural employment in the private sector are even more pronounced, since 77% of their employment in rural areas is as agricultural laborers.

The urban public sector employs 16% of urban male workers and 12% of urban women workers. The public sector accounts for little of rural employment, about 3% for both men and women. Men comprise 62% of those employed in the urban public sector and 81% in the rural public sector. These differences translate into a very different balance of men and women in the public sector for urban and rural areas; there are about 10 times the number of women employed in the urban public sector than are in the rural public sector, as compared to about 4 times for men.

The occupational profile of public sector employment is also quite different in rural and urban areas. For example, professional workers are about a third (34%) of public sector employees in urban areas and just 14% of public sector workers in rural areas. In both areas, a considerably greater proportion of women than men are working as professionals.

FORMAL AND INFORMAL EMPLOYMENT

In Table 3.9 urban employment is broken down by whether it is in the formal or informal sector. For the household survey, the informal sector was defined "as consisting of the self-employed, employers, employees, and family workers in establishments with fewer than 5 workers, excepting professional, technical, and administrative groups."²⁷

TABLE 3.9
FORMAL VS. INFORMAL EMPLOYMENT BY OCCUPATION - 1991
(in percent)

	Total	Total Formal	Informal	Total	Male Formal	Informal	Total	Female Formal	Informal
Professionals	9	97	3	8	97	3	10	98	2
Managerial	1	98	2	1	98	2	1	100	0
Office Employees	10	87	13	9	85	16	12	89	11
Sales	22	18	82	14	30	70	32	12	89
Services	11	61	39	9	85	15	14	41	59
Agricultural Laborers	11	62	38	14	56	44	6	82	18
Non Agr. Laborers	10	33	67	7	60	40	15	16	84
Artisans/Operatives	21	48	53	29	49	51	11	43	57
Transport Workers	6	48	53	10	45	55	1	84	16
Total (in percent)	100			100			100		
Total (in thousands)	842	433	409	483	282	201	358	151	208

Source: Gregory (1993), El Salvador Multiple Use Household Survey (MiPLAN)

Note: Urban only, excludes domestic workers. The values in the columns headed Formal and Informal refer to the proportion of each occupational group in each sector, and therefore add up to 100%.

In the aggregate, about half (49%) of urban employment is generated by the informal sector. For women, the table shows a preponderance of informal sector employment, 58% vs. 42% in the formal sector. For men, these percentages are reversed. Domestic work is not included in this data; if it were, the proportion of men engaged in informal sector employment would remain at 42% while the figure for women would rise to 70%.

The percentages shown in Table 3.9 indicate for each occupational group the division between formal and informal sector employment. There are many differences by occupational category. Overall, professional, managerial, and office personnel are predominantly employed (over 87%) in the formal sector. About 60% of service workers and agricultural laborers are located in the formal sector as are just under half of artisans/operators and transport workers. Sales workers (82%) and non-agricultural laborers (67%) are predominantly found in the informal sector.

While 30% of the men employed in sales work in formal settings, only 12% of women do so. In services, formal employment accounts for 85% of the men working but only 41% of women. The percentage of non-agricultural laborers working in the informal sector is 40% for men and 84% for women.

Employment status is strongly associated with formal and informal employment (by definition). As shown in Table 3.10 (domestic workers not included), over three-quarters of informal sector workers are self-employed (58%) or temporarily salaried workers (19%). In the formal sector, about 70% of all workers are permanently salaried and about 25% are temporarily salaried.

Table 3.10 also shows substantial differences between male and female employment. 72% of women workers in the informal sector are self-employed. Another 14% are unpaid family workers. For men, 44% of informal sector workers are self-employed and an almost equal amount (43%) are salaried. In the formal sector, for both men and women, almost all jobs (93%) are salaried, with women having a higher proportion of permanently salaried positions (75% vs. 66%).

TABLE 3.10
FORMAL vs. INFORMAL EMPLOYMENT BY EMPLOYMENT STATUS - 1991
(in percent)

	Total	Total Formal	Informal	Total	Male Formal	Informal	Total	Female Formal	Informal
Employer	3	3	4	4	3	6	2	2	2
Self-Employed	29	2	58	19	2	44	42	1	72
Unpaid Family Worker	7	3	10	4	2	6	10	5	14
Permanent Salaried	40	69	9	44	66	12	35	75	6
Temporary Salaried	21	24	19	29	27	31	11	18	6
Total (in percent)	100	100	100	100	100	100	100	100	100
Total (in thousands)	842	433	409	483	282	201	358	151	208

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Note: Urban only and excludes domestic service.

EMPLOYMENT AND EARNINGS

This section examines the relationship between earnings and the occupational, sectoral, geographic, and gender differences considered above.

Earnings and Economic Activity

Table 3.11 shows average monthly earnings in urban areas in 1991 by economic sector. Overall, earnings were highest in the finance sector and lowest in agriculture, the former averaging almost three times the latter. Workers in public utilities and the transportation and communication sectors also had relatively high earnings.

TABLE 3.11
AVERAGE MONTHLY EARNINGS
BY ECONOMIC SECTOR - 1991
(in 1991 colones)

	Total	Male	Female
Agriculture	557	577	479
Mining	692	692	----
Manufacturing	807	955	614
Public Utilities	1,372	1,309	1,672
Construction	808	791	1,107
Commerce	911	1,195	740
Transportation/Communications	1,237	1,219	1,484
Finance	1,517	1,677	1,269
Services	913	1,114	740
Overall	889	1,018	727

Source: El Salvador Multiple Use Household Survey 1991 (MIPLAN)

Note: Urban only

Women, on average, earned 71% of the earnings of men in urban areas in 1991 (Table 3.11). In agriculture, women's earnings were 83% those of men, 64% in manufacturing, 62% in commerce, and 76% in finance. The higher average monthly earnings for women in other sectors -- public utilities, transportation/communications, and construction -- are due to the fact that relatively few women are employed in these areas and much fewer of them than men are low-paid laborers.

Earnings and Occupation

Table 3.12 shows average monthly wages by occupation for the nation as a whole. Overall, managers are best paid, averaging almost ten times the earnings of agricultural laborers, who are the worst paid group. Sales, transport, office, and professional workers are among the better paid, averaging between two and three times the earnings of the average agricultural worker.

Overall, average urban earnings are about twice average rural earnings. Urban earnings are greater than rural earnings in every occupation, although the degree of difference varies by occupation. The largest urban/rural difference is for managers, with urban earnings nearly four times rural earnings. Urban professional workers and those working in sales have earnings roughly twice those of their rural counterparts.

TABLE 3.12
AVERAGE MONTHLY EARNINGS BY OCCUPATION - 1992
(in 1992 colones)

	National			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
Overall	885	952	769	1137	1335	894	560	584	493
Professionals	1674	1891	1395	1756	2007	1442	841	869	792
Managerial	4984	5439	3583	5135	5668	3583	1361	1361	---
Office Employees	1351	1405	1292	1401	1491	1311	899	870	973
Sales	1098	1357	845	1258	1777	959	673	934	606
Service Workers	620	939	481	667	1055	528	492	737	320
Agricultural Laborers	514	524	460	730	761	578	477	484	436
Non agr. Laborers	858	1107	666	907	1162	740	758	1021	479
Artisans/Operatives	848	904	652	916	977	702	675	718	529
Transport Workers	1310	1357	803	1422	1487	838	1013	1032	584
Not Identified	752	752	421	834	836	674	671	677	265

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Nationally, women's average earnings in 1992 were 81% of men's earnings. This is greater than that reported above for urban areas in 1991 because the 1992 data includes rural earnings, which are less unequally distributed than urban earnings. In rural areas in 1992 women earned 84% of men's earnings. In urban areas in 1992 women earned 67% of the earnings of men, less than the 71% reported the year before. To the extent the data is comparable, it may be that the nature of recent economic growth is heightening inequalities.

Nationally, women earn less than men in every occupational category. Women only earn about half what of men do in sales and service, about 60% in transport or non-agricultural labor, about two-thirds in management, and a little less than three-quarters as operatives or professionals. Women come closest to men's earnings as agricultural laborers, the former averaging 88% of the latter. Within both urban and rural areas, on average, women earn less than men in all occupational categories.

Earnings in the Public and Private Sector

Table 3.13 shows how earnings differed in the public and private sector in 1992 for the nation as a whole. Overall, average public sector earnings are 62% greater than average private sector earnings. For men the difference between the sectors is smaller; they earn 50% more in the public sector than in the private sector. For women, it is greater; working in the public sector they earn 88% more than women working in the private sector. Average earnings for men and women in the public sector are about the same, mostly due to women's greater concentration in the better paid occupational groups in the public sector. In the private sector women on average earn 78% as much as men.

Table 3.13
AVERAGE MONTHLY EARNINGS IN PUBLIC AND PRIVATE SECTOR
BY OCCUPATION - 1992
(in 1992 colones)

	Private			Public		
	Total	Male	Female	Total	Male	Female
Professionals	1,855	2,136	1,325	1,514	1,603	1,433
Managerial	5,259	5,787	3,748	3,388	3,648	2,086
Office Employees	1,227	1,242	1,213	1,531	1,612	1,427
Sales	1,099	1,634	846	937	1,156	691
Services	547	863	446	1,071	1,104	998
Agricultural Laborers	513	522	461	604	644	417
Non Agr. Laborers	845	1,093	662	1,245	1,343	924
Artisans/Operatives	827	882	649	1,163	1,179	878
TransportatWorkers	1,317	1,371	797	1,256	1,263	974
Overall	830	992	706	1,344	1,351	1,331

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Most of the advantage in earnings to working in the public sector comes from the much greater proportion of jobs in the public sector that are in higher earning occupations (Tables 3.7 and 3.8), like professionals and office employees, and the relatively few jobs in low-paying occupations like laborer. However, within the more highly skilled occupations, public sector earnings are often lower than private sector earnings. Public sector earnings for professionals and managers are substantially lower (19% and 36% respectively). Public sector earnings are substantially higher than private sector earnings in less skilled areas -- for service workers (96%), non-agricultural laborers (47%), artisan/operatives (41%), office employees (25%), and agricultural laborers (18%). It should be noted that many of these differences may be due to more detailed, within category, occupational differences than the available data allow us to examine.

The pattern of earnings differences between sectors by occupation varies for men and women. Women's earnings in the public sector are higher than in the private sector for each of their three main private sector occupations -- 8% higher for professionals, 18% for office employees, and 223% for service workers. For men, the overall patterns discussed above hold, but are more accentuated -- e.g., male professionals earn 25% less in the public sector and office employees 30% more.

Wage inequalities differ considerably within each sector. For example, in the private sector, the highest paid occupational group (managers) has average earnings 10.3 times those of the lowest paid group (agricultural laborers), as opposed to 5.6 times in the public sector. The gap between male and female earnings within different occupations, as well as overall inequities, tend to be more pronounced in the private sector -- e.g., women professionals in the private sector earn 62% of men's earnings while in the public sector the figure is 89%.

Although not included in the tables, there is a variety of urban/rural differences between private and public sector earnings. Working in the public sector in urban areas yields average earnings that are 32% higher than in the private sector, 11% for men and 67% for women. In rural areas the difference is even more pronounced; working in the public sector yields average earnings that are 73% higher than in the private sector, 67% for men and 90% for women.

In urban areas, the public/private differences in average earnings by occupation are similar to the nationwide differences. However, the differences in average public and private sector earnings in rural areas vary considerably by occupation. Public sector earnings for professional workers and managers are higher, rather than lower than private sector earnings; in the case of professional workers, substantially higher (97% for men and 172% for women). In rural areas, the only occupational group for whom public sector earnings are lower than in the private sector is female agricultural laborers, by 15%.

Earnings in the Formal and Informal Sectors

Earnings differ considerably between the formal and informal sectors. In urban areas in 1991, average earnings in the informal sector were 65% of those in the formal sector. While men working in the informal sector earned 76% of men's average earnings in the formal sector, women earned only 56%.²⁸

Table 3.14 provides some information for urban areas in 1991 on the relationship between employment status and earnings between the formal vs. informal sectors (domestic workers not included). Average earnings are not available, which limits the analysis; instead, earnings are given in ranges and the table reports the cumulative percentage of workers receiving less than the indicated earnings.

Roughly half (51%) of employers in the informal sector earned more than 1500 colones monthly, while about 70% of the formal sector employers earned that quantity or more. About half (47%) of the formal sector permanent salaried workers earned more than 1000 colones per month compared to just 20% for the smaller number of permanent salaried working in informal settings. Temporary salaried workers had roughly equivalent earnings in the formal and informal sectors, with only about 10% earning more than 1000 colones per month. Earnings for the self-employed differed substantially between the sectors, but this is because the relatively few formal sector self-employed are defined to consist of professionals and managers.

TABLE 3.14
MONTHLY EARNINGS IN FORMAL vs. INFORMAL EMPLOYMENT
BY ENROLLMENT STATUS - 1991
(cumulative percent)

		Earnings - 1991 colones								
		No. of Workers	< 200	< 500	< 700	< 1000	< 1500	< 2000	< 2500	< 3000
Employer	Formal	11885	1	2	5	15	32	41	54	59
	Informal	15894	1	11	19	30	49	62	77	81
Self-Employed	Formal	6489	1	11	23	34	52	63	72	76
	Informal	238197	13	48	62	79	88	94	97	97
Permanent Salaried	Formal	298784	1	6	25	53	85	93	96	97
	Informal	35993	4	34	62	80	92	97	99	99
Temporary Salaried	Formal	102249	4	43	73	90	96	98	99	99
	Informal	76426	10	49	68	88	96	99	99	100

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Note: Urban only, excludes domestic workers

UNEMPLOYMENT²⁹

Unemployment data depend critically on how unemployment is defined. In Latin America, and other developing countries, an emphasis is often put on estimating both open unemployment and underemployment, since economic changes often affect underemployment much more than open unemployment.³⁰ Underemployment is often conceptualized as referring to workers who have part-time jobs, but want full-time ones, although sometimes included are those who have full-time jobs that pay below the minimum wage. In El Salvador, the underemployment measure includes both groups.

National data on open unemployment in 1992 indicate an overall rate of 8.7%. Urban unemployment rates are lower (7.9%) than rural (9.7%) and women have lower rates (8.3%) than men (9.0%). Younger workers also face considerably higher unemployment rates than older workers. For workers between the ages of 10 and 25, unemployment rates are generally between 12% and 15%. Underemployment data are only available for urban areas. In 1992, underemployment remained a serious problem, affecting about 38% of the workforce, with approximately 4% reporting involuntary part-time employment and another 34% working full-time for less than the minimum wage.

EDUCATION, EMPLOYMENT, AND EARNINGS

This section examines the relationships between education and the occupational, sectoral, geographical, and gender differences considered above.

Education and Employment

Table 3.15 shows the 1992 distribution of employed persons by educational level. Approximately one quarter (24%) of the employed persons in El Salvador have no formal schooling. The percentage of those with no schooling is roughly three times greater in rural areas than urban (37% vs. 13%). Nationwide, over two-thirds (68%) of the workforce has a primary school education or less -- in urban areas the figure is 51%, while in rural areas it is 89%. At the other end of the educational spectrum, 7% of the workforce has some higher education, 13% in urban areas, but only 1% in rural areas.

TABLE 3.15
EMPLOYMENT BY EDUCATION - 1992
(in percent)

Years of School	National			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
None	24	25	24	13	11	16	37	36	39
1 - 3	21	23	19	14	14	15	29	30	26
4 - 6	23	23	23	24	24	25	23	23	22
7 - 9	13	14	12	18	20	15	8	8	7
10 - 12	11	9	14	18	18	19	3	2	4
13+	7	6	9	13	13	12	1	1	1
Total (in percent)	100	100	100	100	100	100	100	100	100
Total (in thousands)	1,780	1,133	647	946	514	432	834	619	215

Source: El Salvador Multiple Use Household Survey (MIPLAN)

The distribution of education by gender shows some differences. Nationally, women in the labor force have higher educational levels than men -- 23% of working women have more than 10 years of schooling, whereas for men the figure is 15%. Interestingly, in both urban areas and in rural areas, this overall difference between men and women is slight because women's employment is concentrated in urban areas (67%), while men's employment is mostly (55%) rural.

Education and Public/Private Employment

Table 3.16 shows differences between the public and private sectors. Overall, perhaps most striking is the substantially higher educational level in the public sector: while about three-quarters (73%) of the private sector workforce has a primary education or less, only 30% in the public sector do; 37% of the public sector workforce has some secondary

TABLE 3.16
PUBLIC/PRIVATE EMPLOYMENT AND EDUCATION - 1992
 (in percent)

Years of School	TOTAL					
	Total	PUBLIC		Total	PRIVATE	
		Urban	Rural		Urban	Rural
none	6	4	18	26	15	38
1 - 3	9	6	22	23	16	29
4 - 6	15	13	25	24	25	23
7 - 9	13	13	14	13	18	8
10 - 12	24	27	10	10	17	2
13+	33	37	11	4	8	0
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	170	141	29	1,610	805	805

Years of School	WOMEN					
	Total	PUBLIC		Total	PRIVATE	
		Urban	Rural		Urban	Rural
none	2	1	10	26	18	40
1 - 3	3	2	12	20	17	27
4 - 6	7	6	20	24	25	22
7 - 9	6	6	9	13	16	7
10 - 12	35	36	19	12	17	3
13+	47	49	31	5	7	0
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	59	54	5	588	378	210

Years of school	MEN					
	Total	PUBLIC		Total	PRIVATE	
		Urban	Rural		Urban	Rural
none	8	5	20	27	12	37
1 - 3	11	8	24	24	15	30
4 - 6	19	17	26	24	25	23
7 - 9	17	18	15	13	21	8
10 - 12	19	22	8	8	17	2
13+	25	30	6	4	10	0
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	111	87	23	1,023	427	596

Source: El Salvador Multiple Use Household Survey (MIPLAN)

schooling compared to 23% in the private sector; and fully one-third of the workforce in the public sector has some higher education compared to only 4% in the private sector. Although the public sector only employs 10% of the national workforce, it provides about half (49%) of the jobs for those with higher education.

Educated women have relatively more employment opportunities in the public sector than in the private sector. For women, the public sector supplies 57% of the nation's jobs for those with higher education while for men the figure is 43%. While women account for 35% of all public sector employees, they comprise 50% of all public sector employees with 10 or more years of schooling and just 14% of those with 6 or fewer years of schooling. The differences between men and women's employment are striking, even in urban areas where men have considerably more education than men in rural areas. For example, in urban areas, women with some higher education constitute 49% of public sector employment, whereas they only make up 7% of private sector employment; for men with some higher education the respective figures are 30% vs. 10%. It is also striking that there are virtually no workers with higher education in the private sector in rural areas.

Education and Formal/Informal Employment

Table 3.17 shows the distribution of urban employment by educational level in the formal and informal sector. In the metropolitan San Salvador area, 37% of those employed are employed in the informal sector. This percentage for other urban areas is 55%. Women comprise 57% of the informal sector employees in San Salvador and 48% in the remaining urban areas.

The informal sector employs less educated labor than the formal sector. In San Salvador, 59% of informal sector workers have 6 or fewer years of schooling as compared to 25% in the formal sector. Only 21% in the informal sector have 10 or more years of schooling as compared to 57% in the formal sector. For other urban areas, 72% of workers in the informal sector have 6 or fewer years of schooling as compared to 47% in the formal sector. Only 12% have 10 or more years of schooling in the informal sector as compared to 36% in the formal sector.

The distribution of men and women in the informal sector by educational level is fairly similar. In the formal sector, women provide a more educated workforce than men. For example, in San Salvador about two-thirds (67%) of women have 10 or more years of schooling as compared to about half (51%) of men. In other urban areas the comparable figures are 52% vs. 27%.

TABLE 3.17
FORMAL/INFORMAL EMPLOYMENT AND EDUCATION
 (in percent)

	FORMAL					
	Metropolitan			Other Urban		
	Total	Men	Women	Total	Men	Women
none	3	3	2	12	13	10
1 - 3 years	6	7	3	13	14	9
4 - 6 years	16	17	13	22	25	16
7 - 9 years	19	21	15	18	20	13
10 - 12 years	29	25	36	20	16	27
13+ years	28	26	31	16	11	25
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	271	170	101	209	143	65

	INFORMAL					
	Metropolitan			Other Urban		
	Total	Men	Women	Total	Men	Women
none	12	8	16	24	21	27
1 - 3 years	17	14	19	21	21	21
4 - 6 years	30	32	29	27	27	26
7 - 9 years	20	22	18	16	18	13
10 - 12 years	16	18	14	10	10	11
13+ years	5	6	4	2	2	2
Total (in percent)	100	100	100	100	100	100
Total (in thousands)	159	68	91	253	130	123

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Note: Urban only, excludes domestic workers.

Education and Earnings

One of the principal measures used to look at the economic payoff to schooling is earnings. Table 3.18 shows average differences in earnings by educational level. While the association can be caused by many factors, the data show that more educated workers are significantly better paid and the differences seem to be accentuated for those with higher educational levels: nationwide, those with 1 to 3 years of schooling earn 26% more than those with no schooling; those with 4 to 6 years schooling earn 22% more than those with 1 to 3 years; those with 7 to 9 years 12% more than those with 4 to 6 years; those with 10 to 12 years 44% more than those with 7 to 9 years; and those with 13 or more years 64% more than those with 10 to 12.

While those with more schooling earn more in both urban and rural areas, the payoff is much smaller in rural areas. For example, in rural areas, those with 1 to 3 years of schooling earn 19% more than those with no schooling vs. 28% in urban areas, and those

with 4 to 6 years of schooling earn only 9% more than those with 1 to 3 years, vs. 16% in urban areas. Rural workers at higher levels of education also have smaller gains in earnings, in relative and absolute terms, than those of their urban counterparts.

TABLE 3.18
EDUCATION AND MONTHLY EARNINGS - 1992
(in 1992 colones)

TOTAL			
Years of school	Total	Urban	Rural
none	527	641	476
1 - 3	665	821	565
4 - 6	809	950	616
7 - 9	909	993	659
10 - 12	1,306	1,358	845
13+	2,139	2,185	1,112

WOMEN			
Years of school	Total	Urban	Rural
none	497	584	419
1 - 3	564	612	501
4 - 6	664	717	549
7 - 9	774	838	483
10 - 12	1,150	1,180	788
13+	1,538	1,556	1,055

MEN			
Years of school	Total	Urban	Rural
none	543	712	497
1 - 3	716	1,013	586
4 - 6	891	1,128	640
7 - 9	975	1,080	713
10 - 12	1,436	1,513	875
13+	2,602	2,676	1,143

Source: El Salvador Multiple Use Household Survey (MIPLAN)

There are also marked differences in the level of earnings between urban and rural areas, with rural workers having lower earnings at all educational levels. For example, rural workers with no schooling earn about three-quarters of the amount that those in urban areas earn, and rural workers with some higher education earn about half that of urban workers with the same level of schooling.

At every educational level women earn less than men, with the differences generally increasing at higher educational levels. For example, women with no schooling earn 92% of what similar men do, while women with some higher education only earn 59% of what similar men do. There is generally a smaller percentage increase in women's

earnings associated with the completion of higher educational levels than that shown for men. For example, men with 1 to 3 years of schooling earn 32% more than those with no schooling while for women the difference is 13%; men with some higher education earn 81% more than those with 10 to 12 years of schooling while for comparable women the difference is only 34%.

Education and Earnings in the Private and Public Sectors

Public and private sector differences in average earnings by educational level are shown in Table 3.19. Nationally, average public sector earnings are higher than private sector earnings within every educational category, except for those with 13 or more years of schooling for whom the private sector pays 48% more. In both sectors, earnings rise with educational level. Private sector earnings exhibit greater variation between lower and higher levels of schooling than do public sector earnings. For example, in the public sector those with some higher education earn about twice what those with no schooling do as compared to almost five times in the private sector.

Women earn less than men, on average, at all levels of education within both the public and private sectors. The differences are significantly less pronounced within the public sector. Within the private sector, the payoff to education appears substantially greater for men than women. For example, men in urban areas with 13 or more years of schooling earn about three times as much as men with 7 to 9 years of schooling, compared to about two times for women. The greatest gap in earnings between men and women shown in Table 3.19 is for those with 13 or more years of schooling working in the urban private sector: men earn almost twice as much as women.

Education and Earnings in the Formal and Informal Sectors

Table 3.20 shows 1992 earnings differences between informal and formal employment in metropolitan San Salvador. The categorical data available limits us to discussing the cumulative percentage of the workforce that attains a certain wage for each educational level. Higher levels of education in both the formal and informal sectors show some association with higher earnings, as can be seen, for example, in the lower percentages of workers who earn less than the minimum wage at higher educational levels. However, for some educational levels this association is weak or non-existent, especially in the informal sector. Lower levels of education appear to have little payoff, or a smaller payoff than in the formal sector. It is likely that this reflects some degree of labor market segmentation, by which some workers with the same productive potential as workers in the formal sector, e.g., with similar education, become relegated to lower-paying, less secure, informal sector employment.

TABLE 3.19
PUBLIC/PRIVATE EMPLOYMENT, MONTHLY EARNINGS,
AND EDUCATION - 1992
(in 1992 colones)

Overall Years of School	TOTAL			PRIVATE		
	Total	PUBLIC Urban	Rural	Total	Urban	Rural
none	848	914	778	518	629	470
1 - 3	984	1097	838	650	801	556
4 - 6	1114	1196	907	786	926	601
7 - 9	1188	1239	946	874	959	635
10 - 12	1357	1368	1209	1292	1355	777
13+	1690	1714	1268	2506	2562	907

Years of School	WOMEN			PRIVATE		
	Total	PUBLIC Urban	Rural	Total	Urban	Rural
none	594	619	559	496	583	418
1 - 3	845	1037	463	559	603	501
4 - 6	875	1009	469	658	706	551
7 - 9	1126	1195	587	755	817	479
10 - 12	1343	1328	1620	1088	1131	631
13+	1479	1499	1122	1602	1614	789

Years of school	MEN			PRIVATE		
	Total	PUBLIC Urban	Rural	Total	Urban	Rural
none	882	959	803	531	689	490
1 - 3	1005	1108	880	697	1002	574
4 - 6	1160	1235	978	864	1112	620
7 - 9	1199	1247	985	939	1049	686
10 - 12	1371	1409	982	1453	1541	855
13+	1902	1929	1417	3064	3166	930

Source: El Salvador Multiple Use Household Survey (MIPLAN)

TABLE 3.20
FORMAL/INFORMAL EMPLOYMENT, MONTHLY EARNINGS, AND EDUCATION
IN METROPOLITAN SAN SALVADOR - 1992
(cumulative percent)

Colonos	MEN													
	FORMAL							INFORMAL						
	Total	None	1-3 years	4-6 years	7-9 years	10-12 years	13+ years	Total	None	1-3 years	4-6 years	7-9 years	10-12 years	13+ years
None	1	1	1	2	1	0	0	5	7	5	5	6	6	5
< 200	2	3	3	6	3	1	0	10	23	9	10	9	7	8
< 400	5	8	6	11	7	2	1	17	29	17	17	17	15	28
< 705*	18	44	28	29	24	13	4	38	58	40	39	37	31	38
< 1000	43	73	55	61	57	42	13	61	82	67	63	62	50	48
< 1500	68	91	85	82	86	68	34	79	97	83	85	80	70	63
< 2000	81	91	95	93	94	85	54	86	99	88	90	88	78	68
< 2500	87	93	100	96	96	89	65	89	100	91	93	90	82	77
< 3000	91	95		98	97	94	75	93	100	98	95	96	87	100
Employment (in thousands)	169.2	5.7	12.2	28.8	36.5	43.0	42.8	68.4	5.2	9.9	22.2	14.7	12.2	4.3

	WOMEN													
	FORMAL							INFORMAL						
	Total	None	1-3 years	4-6 years	7-9 years	10-12 years	13+ years	Total	None	1-3 years	4-6 years	7-9 years	10-12 years	13+ years
< 200	2	8	6	4	2	1	1	19	16	19	20	24	17	17
< 400	6	28	13	11	6	3	5	36	35	37	36	46	26	25
< 705*	26	68	60	47	46	19	9	61	58	66	61	68	56	44
< 1000	50	84	83	75	77	47	25	81	84	82	80	85	77	67
< 1500	76	96	96	94	93	78	55	92	95	93	91	93	89	81
< 2000	90	96	100	98	96	92	80	94	96	95	93	94	91	92
< 2500	94	96		98	97	95	89	95	98	97	95	95	93	94
< 3000	97	96		99	99	97	94	97	100	98	97	97	95	98
Employment (in thousands)	101.2	1.8	3.3	13.4	15.1	36.3	31.2	90.9	14.7	17.4	26.3	16.3	12.6	3.4

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Note: Urban only. Excludes domestic workers.

*Minimum Salary at the time of the survey was 705 colones/month

Inequalities between men and women are again evident in this sectoral breakdown of employment data. Women are more concentrated in lower wage jobs than men for all educational levels, in both the formal and informal sectors. For example, the proportion of women who earn less than the minimum wage in both sectors is about 1.5 to 2 times that for men at each educational level.

Literacy and Earnings

Data in the 1992 household survey were also available on the earnings of (self-reported) literates vs. illiterates. Table 3.21 presents these data, including only that segment of the population with a primary school education or less. Nationally, those who are literate earn 45% more than those who are not. For men, this difference is greater than for women, 53% as compared to 28%. Men's earning advantage over women increases with literacy: women who are illiterate earn 92% as much as men illiterates, but literate women only earn 77% of literate men's earnings.

For women, the relative earnings gain for being literate is similar in urban and rural areas (21% and 26% respectively), while for men the difference in urban areas is much greater between literates and illiterates than in rural areas (61% vs. 25%). In urban areas, a literate woman earns only about 10% more than an illiterate man.

TABLE 3.21
LITERACY AND MONTHLY EARNINGS - 1992
(in 1992 colones)

	(1) Illiterate	(2) Literate	(2) + (1)
National			
- Total	512	744	1.45
- Male	527	806	1.53
- Female	487	625	1.28
Urban			
- Total	611	905	1.48
- Male	674	1083	1.61
- Female	565	682	1.21
Rural			
- Total	470	590	1.26
- Male	490	590	1.25
- Female	418	525	1.26

Source: El Salvador Multiple Use Household Survey (MIPLAN)

Note: Includes only those with 6 or fewer years of schooling

Education and Unemployment

There is no available data on the underemployment of workers at different educational levels, but there is information on the level of open unemployment in 1992 for those with different amounts of schooling, as shown in Table 3.22. As is often the case, unemployment rates are generally lower for those with little or no schooling and for those with the highest level of schooling. The unemployment rates for those with a primary school education or less were about equivalent to the national average (8.7%). Those with lower secondary education had higher unemployment, 9.2%, those with upper secondary had higher unemployment still, 10.1%, while those with some higher education had the lowest rate, 6.3%. Explanations for this pattern usually draw upon a mixture of supply and demand factors. Workers with little education are driven by necessity to take work. Those with some schooling generally come from higher income families and can search longer for better jobs. Those with higher levels of schooling are relatively scarce in poorer countries and thus are often in great demand.

TABLE 3.22
EDUCATION AND UNEMPLOYMENT - 1992
(in percent)

Years of school	National			Urban			Rural		
	Total	Male	Female	Total	Male	Female	Total	Male	Female
None	8.8	9.9	6.9	7.0	10.0	4.2	9.6	9.8	8.9
1 - 3	8.4	8.5	8.1	7.3	9.0	5.5	9.0	8.3	10.9
4 - 6	8.7	9.4	7.5	7.9	9.4	5.9	9.8	9.5	10.5
7 - 9	9.2	8.8	10.0	8.5	7.8	9.7	11.0	10.8	11.5
10 - 12	10.1	8.8	11.6	9.5	8.3	10.7	15.0	11.8	20.0
13 +	6.3	5.8	6.9	6.2	6.0	6.5	7.1	1.9	14.6
Overall	8.7	9.0	8.3	7.9	8.4	7.2	9.7	9.5	10.5

Source: El Salvador Multiple Use Household Survey (MIPLAN)

This overall pattern, however, does not hold true for men in urban areas, who have lower unemployment the higher their educational level. Urban women have lower unemployment rates than men at lower educational levels and higher unemployment than men at higher levels. In rural areas, at every educational level, women have higher levels of unemployment than men, peaking at 20% for women with upper secondary schooling. It is clear that such rates of open unemployment can be a significant barrier to a family's investment in the education of girls.

SUMMARY AND CONCLUSIONS

Like most Latin American countries, El Salvador experienced a recession in the early eighties. Contrary to most other Latin American countries there was little economic recovery during the eighties; it is just during the last few years that stronger growth has been experienced. GDP per capita in 1991 was still lower (6%) than it had been in 1970. Also, like other nations in Latin America, employment in El Salvador has continued to shift out of agriculture into service industries, although this transformation has proceeded more slowly in El Salvador. On average, in 1990 Latin American nations had 26% of the workforce in agriculture, 26% in goods-producing industries, and 48% in service-producing industries, while for El Salvador in 1992, 36% were in agriculture, 22% in goods, and 41% in services.³¹

The private sector employs the vast majority of workers -- about 90%. Yet, while accounting for only 10% of the overall workforce, the public sector provides 54% of the professional jobs in the country (for women, 65%). About half (47%) of all workers are in rural areas, and, of them, two-thirds are agricultural laborers. The bulk of urban workers are permanently or temporarily salaried (38% and 20% respectively), although there are many self-employed (27%). About half of urban workers are employed in the informal sector. Nationally, unemployment averaged 8.7% in 1992, while underemployment measures, which include part-time and low-wage jobs, were at least twice as high.

Earnings vary substantially by occupational group, with the best paid, managers, receiving about ten times the earnings of the worst-paid, agricultural laborers. Average earnings in urban areas were about twice that in rural areas. In urban areas, informal sector pay is substantially lower (65%) than that in the formal sector. Public sector earnings are 62% greater than those in the private sector, due in good part to the public sector employing a much higher proportion of skilled labor than the private sector. Nonetheless, wages in the public sector for some high-skilled groups, for example, professionals and managers, are significantly lower than in the private sector (19% and 36% respectively).

Women are disadvantaged in employment in all occupations, sectors, and regions. Their employment is largely concentrated in the more insecure and lower paying jobs of the informal sector (70% vs. 42% for men). Women earn less pay than men in all segments of the market. Nationally, in 1992, women earned 81% of what men did -- in the private sector 78%, in urban areas 67%. Even in the informal sector, 61% of women earned less than the minimum wage while 38% of men did. In the public sector, average earnings of men and women are almost equal, but this is because the public sector employs a much higher proportion of females than males who work as professionals and in other highly paid occupational groups.³²

Nationally, about two-thirds (68%) of the workforce has a primary school education or less, while 7% has some higher education. The rural labor force is much less educated than the urban one (e.g., the percentage of those with no schooling in the rural labor

force is about three times that of the urban labor force, 37% vs. 13%). The workforce in the public sector is much more highly educated than the private sector: e.g., in the public sector one-third have some higher education vs. only 4% in the private sector. Those in the informal sector have much less education than those in the formal sector: in the former, in San Salvador in 1991, 59% of workers had 6 or fewer years of schooling as opposed to 25% in the formal sector.

The overall payoff to education seems quite positive, at least in the current labor market, as indicated by earnings differences. More educated workers, on average, earn significantly more than less educated workers. Nationally, differences in years of schooling are associated with the following percentage differences in earnings:

none vs. 1-3 years:	+26%
1-3 years vs. 4-6 years:	+22%
4-6 years vs. 7-9 years:	+12%
7-9 years vs. 10-12 years:	+43%
10-12 years vs. 13+ years:	+64%

These earnings differences vary considerably in different contexts: the relative earnings advantage of the educated is much greater in urban areas than rural, and in the formal sector than the informal sector. Not only are the relative advantages of educated workers lower in these contexts, but they often have an absolute disadvantage as well. Generally, workers with the same educational levels earn less in rural areas, in the private sector, and in the informal sector. There appears to be some segmentation of labor markets, yielding barriers to worker productivity and advancement, although available data offer only limited information in this regard. The private sector does pay more than the public sector for the relatively few workers with some higher education it employs, on average, 48% more. Survey data also indicate that literacy has a payoff; among the less educated segment of the population, defined here as those with 6 or fewer years of schooling, those who are literate earn 45% more than those who are not.

Women in the workforce have higher educational levels than men, e.g., 23% of women have 10 or more years of schooling as compared to 15% of men. Despite the public sector employing only 10% of the female workforce, it has been the main provider of jobs for educated women: e.g., 57% of working women with higher education are employed in the public sector. The payoff of education in earnings appears to be substantially less for women than men. At every educational level, women earn less than men, and the increases in earnings associated with more schooling are consistently less for women. Inequalities between men and women are greater at higher educational levels. Nationally, women with no schooling earn 92% as much as men with no schooling, while women with some higher education earn only 59% of what men do. Even within the public sector women earn less than men with the same education. Despite these inequalities, for women, literacy and schooling still appear to have a substantial payoff in the current labor market, although less so in some contexts, such as rural areas and the informal sector.

It is important to be cautious in interpreting these associations between education and earnings. Clearly they are not causal, as age differences and a host of other factors mask to what extent more education results in greater earnings. Also, there is the problem of what social significance should be given to education-caused differences in earnings, even if we had a good estimate of the impact. Despite these qualifications, the employment and earnings differences reported indicate that, at the present time, schooling is highly valued in the labor market.

4. LABOR MARKET CONTEXT

In order to improve education and work policies, it is necessary to move beyond an analysis of current labor market supply and demand. While quantitative forecasting of labor requirements has proven to be a dead-end, a more qualitative analysis of the broader context is essential. Although we cannot project current data with any confidence, we can examine the policy implications of the current situation from alternative perspectives about future conditions. We begin this chapter by examining some contextual factors specific to El Salvador that will continue to influence greatly the nature and performance of the labor market. In the remainder of the chapter we consider current debates about alternative development strategies, the choice among which could have profound effects on the labor market, and the educational implications of these choices.

SPECIFIC FACTORS: POVERTY, MIGRATION, AND RECONSTRUCTION

We begin with a discussion of three factors critical to El Salvador's future development: the extent of poverty; emigration; and the process of reconstruction following the armed conflict.

Poverty

Perhaps the principal contextual factor that conditions education and development in El Salvador, and in most developing countries, is the extent of poverty. El Salvador inherited inequalities from the colonial era, leading to an economy dominated by large land-holders and one export crop, coffee, and an oligarchic political structure. A small land area and rapid population growth put continual pressure on economic performance. A good export climate in the 1960s and early 1970s contributed to some improvements in income, health, and education, but even before the armed conflict began, social indicators were among the lowest in Latin America. In the late 1970s, long-term inequalities led to open war, which, when combined with international changes, like falling coffee prices and a second oil shock, led to a disastrous decade.

During the eighties, there was a sharp drop in real income. Available data indicate that, over the decade, average real earnings dropped 50% and the minimum wage in agriculture dropped 75% in real terms.³³ While, as some analysts argue, there may be more under reporting of earnings in recent years, the data are indicative of a rapidly deteriorating situation and widespread poverty.³⁴ In 1992, over half (53.7%) of the population was classified as living in poverty, almost one-quarter (23.3%) in extreme poverty.³⁵ Even accounting for underestimation of income, the problem is substantial, as indicated by an in-depth 1988 nutritional evaluation report that almost half (49%) of all children five years of age or younger in the country suffered from protein and caloric malnutrition.³⁶

In urban areas, poverty is partly a result of open unemployment, but is more due to underemployment: the prevalence of part-time and temporary employment and the low wages paid to even full-time work. While the informal sector has contributed significantly to the expansion of employment opportunities, the jobs it creates are some of the least secure and most poorly paid. In rural areas, poverty is more a consequence of some combination of open unemployment, landlessness, which forces day laborer work at very low pay, or being land-poor. Preliminary results of a recent study indicate that as much as 60% of the agricultural labor force, over 300,000 people, fit one of those three categories.³⁷ They are likely to be poor, and, according to the same study, unlikely to have a future in an agricultural sector that requires less and less labor and nearing the limits of land reform.

Emigration³⁸

From 1980 to 1990 it is estimated that between 500,000 and 1,000,000 people, 10% to 20% of the population, had emigrated, 85% of them to the United States. This exodus was, in part, provoked by the desire to escape the dangers and uncertainties of an armed conflict. Economic incentives, combined with geopolitical factors, also played a role in provoking profound changes in emigration.

In the 1980s Salvadorans faced a violent social and political crisis. During that same period economic incentives to migrate from El Salvador to the United States, or elsewhere, also increased. The growing poverty, falling real wages, and a deteriorating economy, combined with an armed conflict, made emigration increasingly attractive. Studies of relative earnings benefits indicate that the more educated workers (those with 10 or more years of schooling) had potentially the highest returns to emigrating to the U.S., and a relatively higher percentage of the pool of educated workers did emigrate. Even for those with less education the average gain in earnings from emigration was still substantial; those with 6 or fewer years of schooling emigrated in absolute numbers roughly equal to the more educated. It was expensive to emigrate to the U.S.; to enter illegally cost an estimated \$800 to \$1600. Many poor emigrants went to neighboring Central American countries. Geopolitical factors also played a role in the migration process. Emigration to the U.S. during this period was easier for Salvadorans than for most other Latin Americans because of U.S. policy toward Nicaragua.

Emigration has a direct impact on the labor market. The loss of 10%-20% of the population through emigration directly affects the labor market in El Salvador by reducing the supply of labor. Emigrants also exert a strong indirect influence on the labor market through the large amounts of money they send home to remaining family members. For 1992, it was estimated that the remittances of Salvadorans living abroad may have been as high as US\$ 900 million, roughly twice the level of exports, or about 14% of GDP.³⁹ This massive amount of money affects the labor market by raising income levels, raising expenditures, increasing the aggregate demand for labor, and affecting the economic behavior of households that receive the funds (such as their participation in the labor force). Remittances also affect the labor market through their impact on structural adjustment efforts, balance of payments, and the commercial deficit. In the remainder of this section we focus on the direct effects of emigration on the labor market by examining more closely who left El Salvador.

Data is available from a 1987 survey of Salvadorans in the U.S. and can be compared with 1992 data in El Salvador to give a picture of the relative educational level of those who emigrated.⁴⁰ Emigrants are considerably better educated than non-emigrants. While, in 1992, 68% of the population in El Salvador had 6 or fewer years of schooling, only about 36% of emigrants had fewer than six years of schooling. At all higher levels, migrants had more education than the average 1992 population: 26% vs. 13% for 7-9 years of schooling; 29% vs. 11% for 10-12 years; and 9% vs. 7% for 13 or more years.⁴¹

The emigrant population is also older than the non-emigrant population. In 1990, 55% of the Salvadoran population was between the ages of 15 and 59. In 1987, this same age cohort comprised 92% of the emigrant population. The emigrant population is predominantly male. While the 1990 population in El Salvador was 44% male (due to the war and migration), survey data indicate that almost 60% of those who had emigrated were male. Emigrants also are disproportionately from urban areas. The 1985 population in El Salvador was 48% urban compared to almost 60% of the emigrant population.

Emigration also affects the supply of labor through remittances. Having a household member working abroad and sending remittances seems to affect the labor force participation rates and the income of household members remaining in El Salvador. For males, labor force participation rates are lower when the household has an emigrant member. The size of the effect is roughly the same as that associated with the household having other kinds of non-wage income. For females, however, having an emigrant household member does not seem to affect labor force participation. Earnings (not including remittances) also appear to be higher in households having an emigrant member, in part, because the families of emigrants are generally more educated and more urban. In the aggregate, there is no estimate of the effects of emigration on labor supply, but given the magnitude of remittances, they could be quite large.

What we do know in the aggregate is that the result of over a decade of high levels of emigration is a labor force that is younger and less experienced, with a higher proportion of females than would have been otherwise. Since emigrants have, on the average, considerably more schooling than the population as a whole, there is a "brain drain" by which El Salvador lost the talents of a large portion of a generation. On the other hand, remittances have made a major contribution to the economy and the loss of so many workers lowered unemployment for those remaining, some estimate by as much as 5 percentage points. What is clear is that despite reductions in emigration, this exodus will continue to have a strong impact on the economy and the labor market over the longer run.

War and Reconstruction

The enormity of the task of reconstructing the damages of 13 years of armed conflict warrants special consideration. The armed conflict was very destructive. Many people died or were disabled; many poor people were forced to abandon their homes and lands.

Physical infrastructure was destroyed. Government budgets were directed towards defense and security (accounting for about 9% in 1970, 14% in 1980, and 26% in 1986). A large influx of foreign aid, mostly from the US, much of it military-related, did stimulate the economy, but the political and economic climate deterred civilian investment.

After two years of difficult negotiations, the Government and FMLN signed the Peace Accords in 1992. To implement the programs mandated by the peace accords, as well as to reestablish basic economic and social infrastructure in the geographical areas identified in the accords, the National Program for Reconstruction (PRN) was begun.

The affected geographical areas consist of 115 municipalities, about 38% of El Salvador's land area. The target population includes: 46,000 demobilized personnel from the Salvadoran Armed Forces and the FMLN, 60,000 displaced persons, 26,000 repatriated refugees, as well as the additional 1,645,000 inhabitants of the region. The PRN has a program of investment projects and another to strengthen democratic institutions; a third program provides technical assistance to help design and implement the other two components.⁴²

The PRN is being executed in two stages, a contingency investment phase designed to meet the basic and immediate needs of the area and a medium-term phase that includes projects with longer horizons. The contingency phase included components to support the immediate needs of the demobilized personnel in terms of training, land transfers, tools, and emergency food distribution, as well as development and infrastructure programs. The medium-term phase attempts to institutionalize and direct many of the contingency phase programs toward longer term goals of social and economic development. Over a five year period, the PRN is expected to cost US \$1.4 billion, as well as influence considerable additional public sector investment.

Much of the PRN centers on the agricultural sector, a sector with a large labor surplus. Although land reform has been an important PRN policy, it is politically difficult to do and land of adequate quality may not be sufficiently available to rely on land reform to meet the needs of the rural population, perhaps not even of the ex-combatants.⁴³ Components of the PRN are also directed at the non-agricultural sector. This aid is primarily through credits for starting small businesses. The credits in many cases are tied to training programs designed to build the entrepreneurial and management capacity of the recipients.

In addition, the PRN is executing a vocational education program in the affected areas, with FEPADE playing a dominant role. During 1992 FEPADE offered 54 training courses to approximately 1,120 persons and provided training to some 1,300 demobilized ex-combatants from both the Salvadoran Armed Forces and the FMLN. PRN proposals include some US\$ 39 million for vocational and technical training over the next four years.

Over the long term, the PRN plans to contribute to the expansion of primary education in the program region. The government proposes to achieve this primary school expansion through EDUCO, a community-based, World Bank-sponsored project. Government targets call for spending US \$12.7 million in the period 1993-96 for extending its coverage.

The PRN will clearly have considerable effects on the labor market. The investment programs will create jobs, and the support for formal and nonformal education will increase skills. The extent to which this translates into moving El Salvador towards a fairer, more prosperous, and more democratic society depends on the larger context.

ALTERNATIVE DEVELOPMENT STRATEGIES

The future of work and employment and the nature of education and human resource policies and practices will depend critically on the factors above and a host of other factors that affect the nation's development. In an increasingly globalized economy, many of these factors are outside the control of a small, open economy like that of El Salvador. Nonetheless, there are many factors that can be controlled, at least to some extent. The belief in development planning, a relatively recent phenomenon, argues that by controlling some of these factors, i.e., by choosing proper development strategies, nations can improve wealth and fairness, as well as strengthen democratic governance.

Unfortunately, there is not agreement on development strategies. Yet there is much more discussion of alternatives than ever before. Standard economic development textbooks and survey articles exhibit a very diverse range of development approaches and economic theorists increasingly question basic beliefs.⁴⁴ While the broadened discussion still leaves us far from agreement, it is placing more options on the table. In many nations, as in El Salvador, these disagreements about development strategies are now openly a part of the political debate.⁴⁵ And these debates are by no means abstract exercises. The choices to be made in El Salvador have great potential to shape the labor market and associated human resource development policies. While there are many variations in development strategies, and the discussion differs from country to country, many analysts identify three broad directions that are debated globally. Free market strategies have been dominant, but their limited success has led to increased interest in alternatives.

Free Market Strategies

Development strategies in El Salvador have changed over time, more or less along with those prevalent globally. A free market ideology has been used to argue for a sequence of primary export-led growth, industrialization, and import substitution strategies. Since the early 1980s, El Salvador, and much of Latin America, have been following another version of a free market development path, often called the neo-liberal model.

The idealized form of this version of free market strategy is characterized by a minimal role of the State in the economy, an emphasis on non-traditional exports, and a liberalization of trade through reducing both tariff and non-tariff barriers. A basic

assumption is that the growth of exports can drive the growth of the economy. In El Salvador, the growth of free trade zones that encourage the location of "maquilas," the renewal of the Central American common market, and the interest in joining NAFTA, are all components of this strategy. If economic achievement is poor, structural adjustment programs are supposed to reestablish market performance through reducing the role of the public sector in productive activities, cutting subsidies, deregulating, and generally correcting what are seen as distortions or market imperfections.

Strategic Development

An alternative development scenario, sometimes labeled "strategic development" or "managed growth," is also outward-oriented, with trade playing a key role in increasing national wealth. However, its strategies are predicated on its analysis of the failures of free market development.

The strategic scenario sees the history of free market development strategies as generally unsuccessful, creating dependency and inequality. This kind of trade-led growth has concentrated wealth in the relatively better integrated and stronger trading partner, further impoverishing the weaker one. Typically, the static comparative advantages for developing countries have been in primary products that use large amounts of unskilled labor. The large surplus of unskilled labor in developing countries results in most of the savings from increasing productivity going to the importing country. An essential failure of the free market scenario, according to these critics, is that reliance on current comparative advantage reinforces the original comparative advantage of low wages. This maintains or increases inequalities within countries and can prevent sustainable development, as trade results in net outflows of capital from the poorer to the richer countries.⁴⁶

The evidence offered for the superiority of free market strategies is seen as incorrect. The successes of the newly industrialized economies of Asia, it is argued, are not due to free markets, but have been built through some combination of serious land reform yielding greater equity, authoritarian political stability yielding greater investment, and ubiquitous State intervention in the economy to direct growth. For example, in South Korea and Taiwan, State policies included the manipulation of internal prices to favor industrialization, transitory protection of "strategic," high value-added industries, and the control of foreign investment.⁴⁷ Strategic development advocates also point out that, historically, countries in the North did not get rich following free trade strategies, but built wealth within a framework of protectionism.

Indeed, today, strategic development policies are widely recognized and followed. They are the guiding philosophy in much of Western Europe and Japan, and ECLAC is advocating their expansion throughout Latin America.⁴⁸ Even in the U.S., many argue that free market strategies are given more lip service than adherence and industrial policies are increasingly discussed as an alternative to "laissez-faire." Basically, the strategic scenario relies on the intervention of the State to modify the "rules of the game" in order to produce benefits from trade. The State consciously manipulates internal

prices through subsidies, tax policy, etc., to direct the flow of investment in order to produce new comparative advantages that yield a more favorable position in the international economy.

In a global economy, where long term success and greater equity depend on applying production technologies that create better jobs for more educated workers, this strategy does not abandon the market, but relies on the State to help select directions and bargain in the world system. Trade agreements are necessary, but their nature is pragmatic, not constrained by free trade ideology. Strategies like free trade zones might be useful, but should not be directed towards the "maquilas" which basically use low-skilled labor and have little to offer long term for the integrated development of better production technologies. A better strategy would involve incentives to attract direct foreign investment that is more in keeping with longer term development directions.⁴⁹

Internally-Oriented Development

A third major direction for development strategy agrees with the free market criticisms of the managed growth framework, but takes them and their implications further. Within a very unequal, global, capitalist economy, the "newer" free market strategies are seen to benefit the North, not the South, as have previous versions of free market development strategies. Within countries, the same unequal, global capitalist economy yields and maintains a very unequal division of wealth. While managed growth strategies may give some short-term gains, their dependence on unequal capitalist structures will, over the long run, maintain the inequalities of the past.

What exactly these criticisms mean in practice has been debated for decades. There are some general areas of agreement, perhaps solidified, in part, due to the lessons of the Soviet Union and Eastern Europe. Overall, a principal idea has been for poor nations to de-link somewhat from the global economy and focus development strategy more "internally," on meeting the needs of the vast majority of the poor.⁵⁰ Neither markets nor strategic development of exports is rejected. The label "internally-oriented" development reflects an emphasis, not an absolute. A market economy within a democratic governance structure is seen as necessary. The difference from other strategies is that the market should be directed, in this case more internally, and that democratic governance should be more participatory, community-oriented, and extended into the workplace. (More participatory governance could also be a part of the other strategies, although it is more integral to discussions of internally oriented development).⁵¹

An important element of internally-oriented development is redistributive, following what have been called "equity-before-growth" strategies. Some degree of redistribution, whether by income transfers, land reform, or subsidies to basic commodities, can help guide production towards basic necessities. This can be furthered by policies that direct agriculture more towards internal food needs than towards export crops. Trade is still seen as essential, and regional trade agreements could be especially helpful in ensuring more stability in satisfying local needs. The dangers of spiraling protectionism are

recognized and the intent is to strike a better pragmatic balance between protection and free trade. Strategic development of export industries would also be integral to operating within the global economy, it just would not be seen as the centerpiece of development.⁵²

Another important part of this strategy is to make public sector governance more participatory and community-based and to make the workplace more democratic, both as means of increasing legitimacy and productivity. More participatory public sector governance is seen to require greater substantive decentralization of authority and resources. More democratic workplaces are not seen as contrary to a market economy; a need for markets and a private sector are recognized, and a good deal of private sector support is seen as necessary to successful development. More worker control is seen as an important means of raising private sector productivity and can be promoted, for example, through strengthening the bargaining power of unions and laws favorable to producer cooperatives.⁵³

Sometimes, it is hoped that internally-oriented strategies can lead to qualitatively different forms of societal organization and development. Recent discussions of the "popular economy" ("economía popular") fit with this notion.⁵⁴ The concept of a popular economy developed from observing the survival strategies of the poor in Latin America. These strategies are characterized by a high degree of collective action in both productive (workshops, microempresas, cooperatives, etc.) and reproductive (communal kitchens, communal child care, community schools, etc.) activities.

A popular economy can generate increased productivity through its alternative forms of organization. By sharing resources and/or the non-work time of an underemployed populace, it can generate a substantial increase in the output of goods and services. An internally-oriented development strategy might try to promote a popular economy organization by structuring incentives for private voluntary organizations, NGOs, and other community organizations to undertake these types of activities.

EDUCATION, THE LABOR MARKET, AND DEVELOPMENT

These three development strategies clearly differ in substantial ways. The free-market strategy sees trade along the lines of comparative advantages as the motor of economic growth. A managed growth strategy stresses the importance of selective use of State intervention to create or foster new "comparative advantages." The internally-oriented strategy tries to insulate itself better from the global economy and let a more equitable distribution of resources and of economic control better direct markets towards the satisfaction of basic necessities.

Yet an important theme common to each of these three strategies is that improvements in education and training are fundamental to development. Unfortunately, there is little precision in the educational implications of each strategy. While there are points of agreement, the role of education in the dynamics of development is also somewhat different for each of the development strategies outlined above. In fact, in a rough way,

these three strategies correspond with three predominant directions for educational reform in Latin America and elsewhere.

Free Market Strategies and Education

The free market model with its emphasis on outward-oriented growth, driven by the comparative advantage of a competitive private sector, argues for an educational system that efficiently adapts to the resulting demands for labor. Indeed, from this perspective, in rich and poor nations, the education system is often blamed for lack of market success because it is not turning out sufficiently educated, adaptable, and disciplined workers. Given this strategy's high reliance on minimally regulated competition, educational development often becomes the chief policy tool for promoting long-term economic development.

The educational policies promoted by the World Bank generally fit within a free market development strategy. The World Bank argues that it attempts to judge its recommended educational policies by the efficiency with which they meet economic needs. For most developing countries in the 1980s and 1990s, the World Bank has argued the evidence implies an emphasis on, first, improving the quality of primary education and, second, extending access to primary education to those who are not included. This strategy has often been complemented by recommendations to reduce or eliminate subsidies for higher education, because of its supposedly lower returns, and the channeling of the resultant savings to the primary school level. The World Bank has also promoted more decentralized community governance as a way of mobilizing more resources for primary education and improving their use. Taken together, these educational strategies are generally viewed as a logical response to market signals that indicate the best directions to promote economic development.

Strategic Development and Education.

From a strategic development perspective, short-term market signals, while not irrelevant, tell us little about long-term development directions. For an economy to compete successfully in the modern world, its government needs to be proactive. Simply developing a more educated labor force is no guarantee that it will be utilized. Education strategies must be developed as an integral part of the industrial and other economic policies adopted to develop new comparative advantages.⁵⁵

In Latin America, a good example of this approach is the educational strategies proposed by ECLAC to complement their recommended managed growth policies.⁵⁶ The intent is for a country to create a comparative advantage in using new integrated production technologies that have the potential to be dynamic learning systems which allow for continual improvement over time. These technologies require more jobs in what Robert Reich has called "symbolic-analytic services," requiring education, initiative, and problem-solving abilities.⁵⁷ While the specifics of educational strategies must depend on the specifics of economic strategies, ECLAC argues for better basic skills and more decentralized governance, as does the World Bank, but also sees a strong need for

improvement in secondary and higher education, adult education, and coordinated public and private sector vocational training. Strong government involvement and compensatory policies are also needed in education to counteract the systemwide inequalities. ECLAC estimates that the general educational reforms they propose require, on average, an additional 1% of GDP and that their payoff would be many times that amount.⁵⁸

Internally-Oriented Strategies and Education

An internally-oriented development strategy stems from the belief that meeting the needs of the vast amount of poor persons in developing countries is not likely to happen through free market or managed growth policies, given the disadvantages and the uncertainties developing countries face in a global capitalist economy. Nonetheless, the need for increasing productivity in domestic industries, as well as the need for a productive export sector, require attention to education. Even if more labor-intensive production technologies for basic necessities like food, shelter, and health care are emphasized, and popular economy structures utilized, it is argued that better general education, which makes people literate, problem-solvers, and skilled at cooperation and teamwork, can increase productivity. Further, it is argued that to make democratic governance more participative requires much more attention to quality and equality in education.

In some ways, the logic and direction of the Education for All initiative fit with an internally-oriented economic development strategy. From this latter perspective, education is often seen more as a fundamental right, along with access to food, shelter, and health care, than as an instrument for economic growth. Developing educational policy based on more fundamental principles than education's connection to the labor market does not have to hamper economic growth. In fact, some argue that a nation would be better off if it de-linked its educational policies from its economic policies. Instead of endlessly adjusting educational policy to short-term judgments of mismatches with the labor market, the economy would get more benefit from a long-term policy of giving people a good general education.⁵⁹

5. CONCLUSIONS AND RECOMMENDATIONS

Three to four decades ago, when we first began to practice development planning on a global scale, there was considerable naiveté. There was almost a belief that we had found the secrets to development. Intentional investments in physical capital and human capital, within a free market economy framework, could lead to rapid growth, helping poor countries to bypass the slow processes of the industrial revolution. Growth would lead to greater equity, greatly reducing the spectacle of widespread poverty. Educational planning was a key part of this process, with new, sophisticated quantitative techniques allowing us to estimate quite precisely the needed educational investments that could make this economic miracle happen.

Most people recognize that, unfortunately, the miracle did not happen and our theories and practices were embarrassingly simplistic. Development policy and even the meaning of development have been widely contested, especially over the last two decades. The ability to link educational policy to manpower needs quantitatively has been thoroughly discredited for a long time. Even the more modest goal of using cost-benefit analysis to indicate the best directions for educational investment has come under widespread attack.⁶⁰

We are thus left with much less clear guidance than we would like. In educational policy, perhaps some would say this is an advantage in that we have for too long let the "mismatch" idea drive educational policy by views about the labor market needs, when education has many other critical purposes for individuals and society. But, even admitting the truth of that observation, most people would say that the future of work and our economy must be key to our thinking about educational policy. Building a good society goes hand-in-hand with building a good workplace. While an assessment of the labor market and economic development directions must contain many ambiguities, it still provides essential context to educational planning and policy decisions. The fact that economic and social directions are debated makes this context even more important to the educational policy discussion.

We began with an examination of the supply of labor in Chapter 2. The quality of the labor force has been adversely affected in the 1980s by various ramifications of the armed conflict, the global economic crisis, and declining expenditures on education. Emigration has taken away many skilled workers, illiteracy is up, the quality of the formal school system is declining, and there are substantial educational inequalities of access and quality.

The nature of the economy and employment over recent years was examined in Chapter 3. In El Salvador, as in many Latin American countries, there was a serious economic decline during the eighties. Even with some recovery over the past few years, real GDP per capita in 1991 was lower than it had been two decades earlier, in 1970. Also, as in many other countries, employment in El Salvador has continued to shift out of agriculture into services, although less so than on average in Latin America. The private

sector employs about 90% of workers, and about half of them work in the informal sector. Most jobs are very low paying; over half pay less than the minimum wage. Some of the best jobs, like in professional and technical occupations, are created disproportionately by the public sector. Throughout the labor force, women are disadvantaged, concentrated in the more insecure and lower-paying occupations, and earning on average 81% of men's salaries, in urban areas 67%, and, for those with some higher education, 59%. Workers in rural areas earn considerably less than those in urban areas.

The labor force is not well educated -- about two-thirds have only a primary education or less, while just 7% have some higher education. In the current labor market, education seems to pay off very well. Those who have more education earn considerably more, on average, than those who have less education, as follows:

none vs. 1-3 years:	+26%
1-3 years vs. 4-6 years:	+22%
4-6 years vs. 7-9 years:	+12%
7-9 years vs. 10-12 years:	+43%
10-12 years vs. 13+ years:	+64%

Education seems to pay off, on average, even among the least educated segment of the population; among those with a primary education or less, those who are literate earn 45% more than those who are not. Nonetheless, these "returns" appear to vary substantially by context. Women and rural residents get lower returns than urban men. There is reason to believe that labor market segmentation and other rigidities are systematically disadvantaging some groups and lowering aggregate productivity. Moreover, the positive returns observed cannot be considered due to education alone, since there are many other factors that affect returns. Nonetheless, the magnitude of average earnings differences provides a signal to individuals that schooling has payoffs and a signal to the policymakers that the labor market values schooling highly.

The future of the labor market in El Salvador depends on an array of contextual factors and policy choices, some of which were discussed in Chapter 4. Three key contextual factors were highlighted: poverty, emigration, and reconstruction. Persistent and widespread poverty is the most serious constraint on and the major target of development strategy. Over half the households in El Salvador are classified as poor, with many of them in rural areas where there are very few good employment alternatives. One result of this situation is widespread malnutrition; the last in-depth national study in 1988 reported more than half of those 5 years old or younger were malnourished.

The massive emigration in the 1980s, of somewhere between 10% and 20% of the population, will continue to affect the labor market. On the one hand, emigration of relatively educated people deprived the Salvadoran economy of many skilled workers and reduced the demand for goods and services, and, therefore, for labor; on the other hand, the huge amount of remittances, some estimate as high as 14% of GDP, has been

of tremendous importance to the economy, and the absence of so many workers raised the employment prospects of those who stayed.

The armed conflict will continue to condition the economy in a variety of ways for some time to come. Development has been misdirected by the distortion of government expenditures toward the military and by large increases in foreign aid, also distorted toward the military. More important than the economic implications are the political and social effects. While people are war-weary, feelings run deep, electoral politics keep the conflict in public view, and underlying causes of the conflict are still present. Building peace will be a long-term task. Continuing conflict has placed a wide variety of economic policy alternatives on the table in the political debates, so the political process will have a great effect on development strategy.

Development strategy choices, as discussed in Chapter 4, will likely have a critical impact on the economy, labor markets, and educational policy. Nonetheless, perhaps some of our disagreements are less sharp than they were 10 or 20 years ago. All sides agree on the need for strong market institutions. National health insurance in the U.S. would have been killed as "creeping socialism" several decades ago. The falling apart of the Soviet empire raised questions about the limits of planning, and the reversal of some capitalist development strategies in many of these countries raised questions about the limits of the market.

It would be wrong to give the impression that there is a move to some center position, but, more and more, some sort of managed growth strategy seems prominent. No nation wants to compete internationally on the basis of low-wage labor. Laissez-faire and focusing on the supply side of the labor market, that is, on education and training, does not seem to guarantee a good future, even for the wealthier nations. In the U.S., there is considerable fear of becoming a de-skilled, low-wage economy. Western Europe is worried that such a future would tear apart the delicate social fabric that unites it.⁶¹

Western European governments have a history of managed growth, as does Japan. The United States has been a main holdout, but perhaps more at a rhetorical level than the practical politics of GATT and NAFTA negotiations would indicate. And now, even at the rhetorical level, things are changing; the chairperson of U.S. President Clinton's Council of Economic Advisors argues that you cannot rely on "the so-called free market" to create high-paying jobs but need industrial policies, like the subsidization of high-technology industries.⁶² Some of capitalism's stronger critics also find a managed growth strategy attractive. ECLAC, which is actively proposing such a strategy for Latin America, used to be the home of dependency theory. And even an internally-oriented development approach recognizes the need to be engaged in the world system. Moreover, some key issues in this approach are being included as elements of a managed growth strategy, such as redistribution, satisfying basic needs, and greater workplace democracy.

Development debates in El Salvador reflect this global debate, but of course are rooted in the specifics of national history.⁶³ The directions that will be taken within El Salvador in the near and medium term future are very uncertain. Despite these uncertainties, we

must select educational policies. One thing that helps is that there seems to be agreement across development strategies that improvements in education and training are of fundamental importance to development. In a free market strategy, education and training are necessary to produce the skilled labor needed to compete in an increasingly high-tech economy. The managed growth approach depends on the ability of the workforce to rapidly absorb and implement the technological changes required by more sophisticated products. Internally-oriented strategies can require advanced technologies in production and skills for more participatory management in the workplace. All strategies argue the need for an educated populace to further more democratic governance.

The need for educational improvement becomes even more salient when we examine the extent to which El Salvador is disadvantaged in modern economic competition. Although comparable data are scarce, El Salvador generally seems to have a less educated workforce than most Latin American countries at similar economic levels. Ten to fifteen years ago, when somewhat comparable data were available, El Salvador's workforce had a relatively high illiteracy rate, a low average level of schooling, and one of the lowest proportions who had completed some higher education.⁶⁴ It is likely that over the past decade El Salvador's relative position has worsened.

RECOMMENDATIONS

The conclusions and recommendations expressed in this report should be seen as tentative. As discussed earlier, methodological problems and debates about data and interpretations have led to a re-thinking of how to study the connections between education and work, and a need to be more modest in making policy claims, explicitly recognizing the essentially political and ideological character of all our policy debates.⁶⁵ Nonetheless, from our perspective, the information and analysis in this report have very strong policy implications and we discuss them below. Yet, we recognize that there are other interpretations of the same information. Therefore, analyses such as ours are most useful if they are part of a larger, continuing, democratic, participatory policy dialogue.

Clearly, the current labor market information discussed in Chapter 3 does have some implications for educational policy. However, it is the future world of work that must influence today's educational policy. Therefore, the choice among development strategies conditions educational policy directions. Most of the policy recommendations we make below can be supported from any of the broad development views mentioned earlier, but some flow more directly from a "managed growth" strategy, which we see as necessary to avoid the development failures of the past.

The predominance of free market development strategies has led to the neglect of the demand-side of the labor market, that is, of the economic and employment policies that shape the nature of work. The principal strategy for development has been a focus on the supply side of the labor market. The idea is to improve the education and training system and leave the choice of directions and the creation of jobs to the market. It is the global

failure of laissez-faire to create enough jobs and better jobs that has much of the world looking towards other development strategies.

Demand-Side Recommendations: Economic and Employment Policy

1. In order to make responsible and workable education policy, concrete strategies to improve the demand-side of the labor market must be implemented, creating more and better employment opportunities that make use of education.

To pursue educational strategy without recognizing and correcting the failure of past economic policies to provide better jobs is irresponsible. Too often, fulfilling this promise is seen as someone else's business or, worse, as no one's business. The perhaps apocryphal story told about Werner von Braun is relevant. When asked about his role in the death and destruction caused by Germany's V-2 missile program in World War II, his response was supposedly something like "the responsibility of my department was getting them up, where they came down was outside my jurisdiction." Such ostrich-like behavior is too common. It has always been easier to blame schooling for our economic and social problems than face the need for more far-reaching changes. However, the missiles we are sending up are our children, and to give them a good education is to promise them that it will be rewarded.

In addition to being irresponsible, a primarily supply-side strategy, aimed at fixing our education and training systems, without attention to the demand-side of job creation, is unworkable. At a micro level, children and their families are rational decision-makers. Even if improvements in the quality of education were made, fifty years of research tells us there would be little improvement in enrollment and dropout rates if the payoff to education remains low. At a more macro level, there is simply no reason to believe that even if we could increase the supply of better educated and trained workers, somehow good jobs will come.⁶⁶ In El Salvador, this was the never-fulfilled justification for the large scale, USAID-financed educational reform in the 1960s involving educational television and curriculum change.⁶⁷ There is no economic reason to believe that supply creates its own demand.

There are, of course, no magic formulas for how to create more of a demand for more educated labor. Managed growth and more internally-oriented development strategies generally offer incentives to the private sector to develop new export advantages, to satisfy basic needs of the population, and to create more and better jobs. In El Salvador, and elsewhere, there is a growing discussion of specific intervention strategies and their strengths and shortcomings.⁶⁸

The range of interventions discussed include expanded public sector investment and re-orienting private sector investment toward production over financial speculation. The public sector would use expenditure, tax, and tariff policy to play more of a lead role in selecting and developing areas for future export advantage. Contrary to the policies which have subsidized investment in low-wage maquilas, the emphasis would be directed towards areas which had the potential for more intensive use of educated, skilled labor as

part of more knowledge-intensive production activities. Tax credit policies could encourage this in various sectors of the economy. Many argue that it is also economically rational to promote greater worker participation in business decision-making. Greater job security and worker control has been shown to increase productivity, by making better use of workers' education and training.⁶⁹

From all perspectives, the inequalities and barriers that constrain labor market operation need attention. Although the extent of segmentation is difficult to document, there seem to be barriers between the formal and informal sectors, as well as within the formal sector, that prevent the economy from taking advantage of some of its skilled workers. Most clear are the barriers faced by women. Women are occupationally segregated, channeled into the low-pay and insecure jobs of the informal sector, and generally face lower rewards in all occupations and sectors of the labor market, even when attaining the same educational levels as men. There are indications that this discrimination and consequent wasting of talent is even worse in El Salvador than elsewhere in Latin America.⁷⁰ While solutions require longer term educational and cultural changes, there are important short-term policy changes needed. Laws that discriminate against women need to be removed and existing laws that penalize discrimination need to be better enforced. Much greater attention is needed to intersectoral improvements that facilitate women's access to the labor market, in areas like child care, housing, and health.⁷¹

There are, of course, no guarantees that a managed growth strategy will yield better development outcomes. To succeed, it probably will mean bargaining internationally about industrial policies, like we do about tariffs with GATT. The key will be to establish some protections, without letting protectionism ruin the benefits of trade, as we attempt to do with GATT. To succeed also must mean a more equitable allocation of resources between North and South, in part through debt relief. Otherwise, countries in the South, like El Salvador, have little chance of growing their way out of poverty. Success will also depend on more equity within nations in the South, with progressive tax increases to help pay for badly needed improvements in social programs, as in education.

Supply-Side Recommendations: Education and Training Policy⁷²

2. The strongest recommendation for educational policy is that considerably more resources must be devoted to education at all levels to improve its quality and expand its reach.

The information presented in this report, complemented by the recent USAID-financed education sector assessment, indicates the need for considerably greater resources devoted to education at all levels. Looking at the current labor market in El Salvador, it is evident that more education is valued and rewarded with large earnings premiums. All development strategies argue that an educated work force will be even more essential in the future. Yet the educational level of El Salvador's workforce is low: about two-thirds have only a primary education or less, while just 7% have some higher education.

Comparable data is scarce, but El Salvador appears to be disadvantaged in this respect relative to most Latin American nations and others with whom it is competing.

The declining quality of education since the early 1970s, evidenced in part by expenditure data, reinforce this picture of comparative disadvantage. Most low-income countries have been hit hard by the connected internal and external crises of the last two decades, and El Salvador especially so. Per pupil expenditures on all educational levels, teacher salaries, and the share of GDP going to education all plummeted in the 1980s, reflecting a decline in quality at all educational levels. The result is an educational system that appears to be one of the most disadvantaged in Latin America -- El Salvador has lower enrollment ratios, lower educational expenditures in relation to GDP, and lower educational expenditures per pupil at all educational levels than most similar countries.

The broad social and economic benefits of schooling compared to the relatively few resources El Salvador currently invests in education provide powerful reasons for much greater investment. How much more and what should be the priorities are less clear. Using rates of return to prioritize educational investment is increasingly rejected as indicating nothing about relative social value, or even about productivity. Under these circumstances, the fact that primary education may have a greater return than higher education is not very interesting, as it only indicates the ratio of salary premiums to schooling expenditures. How to choose relative priorities then becomes some mixture of argument and politics, as it is in deciding how much to invest in education. Reports like this become, at best, part of the discussion. The educational sector assessment (USAID, 1994) recommended that public expenditures on education be increased another 2% of GDP, to arrive at the same relative effort that was expended in 1980. We concur with this recommendation and our arguments with respect to relative priorities are given below, after a discussion of how to finance needed educational improvements.

3. The financing for needed educational improvements must come principally from additional taxes and bilateral and multilateral assistance.

Up until the 1980s, government programs were primarily financed by taxation and international aid. During the 1980s a number of alternatives was proposed: shifts of resources within or between government sectors; user fees; privatization; and community effort. None of these alternatives offers a feasible or sensible means of financing a substantial share of needed educational improvements in El Salvador.

Transferring resources from higher to lower educational levels makes no sense when more resources need to be invested in higher education as well. There is still room for more military sector resources to be transferred to social sectors like education, but whether this will happen is very uncertain. User fees have little potential when the population served is mostly poor. User fees already are charged at most public schools, but they generate little money. Students from better-off families have already fled to the private sector, leading to decreasing educational quality in the public schools. El Salvador already has one of the most privatized educational systems in Latin America

and needs to move in the opposite direction. The promotion of community effort and involvement as a way to finance education came originally from interest in decentralization and local control, but in the eighties became a way of passing the responsibility for results without any resources to accomplish the task. While sometimes communities helped build or maintain schools, it has become clear that poor communities cannot provide many resources towards what is needed. While local control makes sense, the resources must come from the central government, as is being tried experimentally in EDUCO.

The alternative finance mechanisms have not raised much revenue in low-income countries, for reasons similar to those in El Salvador. Attention is returning to the more progressive forms of taxation that agencies like the World Bank used to routinely recommend in the 1970s as a response to educational and other needs. User fees and community efforts are, after all, simply alternative taxes, and ones that generally bar the poorest from receiving a service. A recent World Bank report noted that El Salvador has one of the lowest rates of taxation in the world, even after the IVA reform. Therefore, there is every reason to believe that there is considerable capacity to expand progressive taxation in El Salvador and that the payoff to educational improvement would be substantial. These taxes should be expanded in a progressive manner. That same World Bank report pointed out how the IVA is a regressive tax, falling most heavily on the poor. Future tax reforms should consider more progressive strategies such as the expansion of the income tax, the expansion of the IVA with more exemptions, and better enforcement of existing taxes.⁷³

The other part of the finance package has to come from bilateral and multilateral assistance. We have hoped or pretended for too long that judicious and modest external assistance can make development a reality. There is no evidence for this belief. As exemplified in El Salvador, most of the developing world has been losing ground for decades and the gaps between North and South have widened. El Salvador is significantly disadvantaged relative to its neighbors and they are all significantly disadvantaged with respect to the North. While few would argue that these gaps can be eliminated overnight, many would support the idea that El Salvador should increase the proportion of youth that it enrolls in school and provide them with good teachers, challenging educational materials, and a decent infrastructure. Unfortunately, the cost of doing just this would likely be very large (see the discussion of basic education below), and this is simply one of the many development needs.

The point is that closing these development gaps is far beyond the tax capacity of a society like El Salvador. If the North is serious about helping close these gaps, and perhaps its own long-term interest in global economic growth and stability demand it be serious, then resource transfers must increase, in part due to debt relief. It is often pointed out that El Salvador has one of the lowest debt-to-GDP ratios in Latin America, but even so, debt seriously constrains development. In 1992 the amount spent on the interest on the debt was 30 percent greater than the entire Ministry of Education budget, and the amount paid off in principal was equal to 85 percent of the education budget. For the recommendations in this report and others like it to have meaning, the

international community must provide greater resources to complement the additional national resources El Salvador needs to devote to education.

4. To make the most of its resources, government should focus on an academic as opposed to vocational curriculum.

After decades of policy emphasis on vocational education, there is increasing agreement that this was mostly a mistake, that the government should minimize its role in vocational education, and that the best occupational preparation the schools could offer for a rapidly changing world of work is to educate a literate, numerate, problem-solving, adaptable, reflective, and critical person. This view seems to have made inroads among educators, economists, business people, policy analysts and makers, and is generally supported across development strategies.

The MOE should evaluate whether any of its more vocationally oriented educational activities would be just as well carried out by the private sector. There is little vocational education in basic education. Educacion media was a focus of the 1968 curriculum reform which established a dozen different career tracks. Although all tracks teach basic skills and allow for entrance into higher education, the vocationalization of this curriculum is something that should be re-examined.

The non-university tecnologicos are relatively small but they are also relatively expensive. Little information is currently available to show that the labor market values these institutes. Even if the market does value such vocational training, could it be done just as well by the private sector? Sometimes, public postsecondary institutions are necessary to provide up-to-date and academically challenging occupational education that the private sector would not undertake. But often formal vocational education at all levels is a poor public investment, a second-class alternative for those whom formal schooling has failed.

Government should have only minimal financial involvement in short-term vocational training. There is a need for the government to help organize, give some incentives to, and help direct these types of efforts. Without this involvement, firms will underinvest in some kinds of training. But, for the most part, private sector consortia can manage such training. The development of INSALFORM as a payroll tax-funded system, similar to those of many Latin American countries, is a step in the right direction. These occupational training efforts are important to the economy and therefore care should be exercised that they are governed by a balanced representation from small, medium, and large private businesses, and from the public sector. This balance is essential because smaller firms are generally the biggest job creators, and in a modern economy, the public and private sectors are increasingly in partnership in establishing new directions for growth. However, government representation should not signify much financial support. The extensive government and foreign aid subsidies to this type of training should be rapidly phased out in favor of devoting more resources to improving the provision of general skills in public education.

5. Resource levels at the preschool and basic education levels are extremely low, and greater investment is needed in teachers, materials, and infrastructure. Perhaps the highest immediate priority should be the nutrition of young children on which everything else depends.

Despite a decade in which the rhetoric consistently supported resource investments at the lowest schooling levels, basic education suffered a serious decline, in El Salvador and elsewhere. A developing economy cannot be built upon a population in which the vast majority of individuals only have some primary schooling, especially when that primary schooling consists of only a few hours per week with a very poorly paid teacher.

Even more problematic is that the severity of poverty that accompanied the economic decline of the 1980s has led to a serious malnutrition problem. Even if the situation has improved from the 50 percent incidence of malnutrition among 0 to 5 year olds reported in 1988, the extent of the problem appears serious, and the current school lunch programs do very little to treat it. The consequences of such malnutrition can be poor cognitive abilities, reduced alertness, and increased mortality and morbidity rates. A modern labor force and a more democratic society cannot be built on such a foundation. The highest educational priority should be ensuring adequate nutrition for children before and after they start school. Good school lunch programs also offer a powerful incentive for student attendance.

Beyond healthy children, there is the need for adequate resources to educate them. Preschool education has received a lot of international recognition for its importance to subsequent education and work lives.⁷⁴ Although preschool education has been expanded in El Salvador, it has relatively low coverage and quality. Basic education has broader coverage, but very few resources and low quality. Teachers are generally not very qualified and receive little in-service training. Teacher salaries have declined in the eighties, in real terms and relative to other workers as well, yielding lower motivational levels and a need to work multiple jobs. Moreover, these poorly paid and motivated teachers are basically the only educational resources provided -- there are few, if any, books and materials available and the physical infrastructure is crumbling from years of deferred maintenance. To add to these problems, in a structure where 9 years of schooling are supposed to be universal, the first 6 years of schooling have a 70% enrollment ratio, one of the lowest in Latin America. Making basic education, or even primary education, universal is a difficult and expensive task.

The only resources available for quality improvements to basic education now come from foreign aid, most particularly the USAID-financed SABE project which provides for some teacher training and books and materials. The question is, how can that effort be sustained and expanded in the future? In the educational sector assessment a very rough estimate was made of the expenditures necessary to make basic education coverage universal and to provide a minimally adequate level of resources, including a modest set of books, paper, and materials; maintenance of the physical infrastructure; and a pay raise for teachers (50%) sufficient to make teaching more attractive as a full-time profession.

Taken together the above conditions imply that the basic education budget must be increased by at least 2.3 times to provide a minimally decent schooling for all. Since basic education is about 70% of the MOE budget, this implies the need to double the current budget simply to establish an adequate basic education system. This does not include the substantial efforts needed in the area of preschool and adult education, both vital to basic educational efforts, nor reforms needed at higher education levels. Although very approximate, this estimate is in keeping with estimates made for UNICEF of the global costs of providing universal basic education.⁷⁵

6. There are also inadequacies in educación média and there is a need to re-think, expand, and improve the system.

The need to re-think the vocational orientation of the curriculum was highlighted earlier. Public educación média also needs to expand and improve in response to the excessive privatization of the system over time. With over half its students in private schools, this is one of the most privatized secondary school systems in the world. Privatization grows under conditions of deteriorating public school systems. The quality of public educación média must be improved for the sake of the students who are still there and to attract back a larger share of the age group. Such large-scale provision of private schooling at the secondary level is rare internationally because it augments inequality of opportunity.

7. The quality and extent of public sector investment in university level education should be improved.

The pressing need for more public resources at the university level is seen in the relatively few resources being spent currently on the University of El Salvador, the generally perceived low quality of much of private higher education, the relatively low proportion of the workforce with a higher education, and the need for many more university-educated workers and an expanded research capacity as part of a competitive development strategy. In 1980, the government spent over 4 times as much per student on higher education as now (relative to GDP/capita). While there is some consensus that the private sector can and should play a stronger role in university education than at lower levels, there is also a consensus that the public sector needs to offer a substantial amount of good quality university education to be able to exercise some leadership and control, and to achieve some degree of fairness.

At the moment El Salvador has the worst of all worlds, a low quality and inequitable public and private university system. Current efforts to reformulate the regulations guiding all universities need to be strengthened. The public sector has a strong interest in the quality of private education, and such regulation is a warranted intervention in the market.

There is also the need to devote resources sufficient to re-build public university education into a high quality system. In the 1980s a number of countries experimented with greater tuition at public universities. This policy has not been successful in raising

much money, and accompanying grants and loans for the poor have not been made sufficiently available to maintain equity.⁷⁶ In El Salvador, additional resources are needed to improve quality at the University of El Salvador. If part of this is to be raised through increased tuition, then a serious effort should be made to provide scholarships to poorer students. Government grants and loans for students to study in the private sector can also help develop a more equitable and socially responsive higher education system.

8. Educational investment priorities should recognize the fundamental importance of basic education, but it is necessary to balance investments with attention to the needs of higher educational levels.

The conventional wisdom of the eighties was that since the rate of return to primary education was greater than to higher levels of education, then reductions in the support to the latter should help finance primary education improvements. However, even from within this perspective, higher education was estimated to have a good economic return, and unmeasured benefits and distortions could make the true returns to higher education even greater than the return to primary education. Moreover, from a managed growth perspective, a proactive approach to development signifies the need to create more employment opportunities for those with more education.⁷⁷

All this means that we have underemphasized secondary and higher education this past decade. In the abstract, the emphasis on primary schooling has been sensible because of its connection to growth and equity, but, in practice, it has too often resulted in the deterioration of higher levels of schooling without the hoped-for improvements in primary education, as has occurred in El Salvador. There is now more recognition of the need to have a better balance of investment across educational levels.

There is no technical means of deciding upon this best balance. In our judgment, most important to the future of El Salvador are improvements in basic education, preschool education, and adult education, all of which have low coverage and quality. Nonetheless, a portion of any additional resources to education should be allocated to secondary and higher levels. It makes little sense to try to postpone this investment until basic education is improved, for many reasons: basic education is going to have serious problems for some time; it is a waste of resources to provide a secondary and higher education of low quality; in terms of equity, it is important not to leave access to higher education only to the rich; and the development of a competitive economy requires a workforce with higher levels of education. The allocation of more resources to higher levels of schooling does not have to lead to destructive political competition within education. If the idea of going back to spending 4% of GDP on education is taken seriously, it would be possible to emphasize basic education, but to begin to improvements at all levels.

9. In conclusion, a relatively low-cost but essential investment in an expanded and reformulated MIS and policy analysis capability is needed to help guide other educational investments.

To respond sensibly to changing priorities, opportunities, and contexts, information and analysis are essential. Yet in the MOE and elsewhere in the government there are relatively few resources and developed capacities in the MIS and policy analysis area. The informática group within the MOE has not had the capacity to stay on top of basic data. Hardly any useful information is collected on expenditures and costs. Useful data on education and the labor market are collected in the household survey of GAES, but few resources are available to analyze them. Moreover these data could be made much more useful with the addition of a few questions to the annual survey.

Future educational expenditure records should be classified with as detailed a breakdown by educational level and function as is possible. The GAES survey should be examined from an educational policy perspective in order to add a few questions relating to whether students attended preschool, private or public schooling, what type of bachillerato was received, which university was attended, how many years of higher education were completed, and the like. These types of information need to be analyzed on a regular basis by an informática unit within the MOE in order to be useful to educational policy. This means that, within and across ministries, data must be shared (for example, it is not sufficient for one unit to respond to specific analysis requests of another).

The World Bank currently has a project to strengthen MOE informática capabilities, mostly on the hardware side. Just as important will be personnel -- in terms of increasing their skills and knowledge, increasing their pay levels so that they will not be constantly leaving for the private sector, and changing the culture so information and analysis become a more important part of decision-making.

This call for more information should be tempered by recognition of the limits of information. Most development strategists recognize the limits of labor market information; short term labor market signals about educational performance say little about the long term. In fact, across development perspectives there almost seems to be a de facto tendency to de-link educational policy from labor market specifics. Although this type of de-linking has been proposed specifically by some of the internally-oriented strategists, the constancy with which free market strategists and managed growth strategists have pursued their educational policies effectively de-links them from short-run changes in the labor market. Therefore, continual monitoring of labor market information is not meant to promote the endless short-term adjustment of educational policy due to education's mismatch with the labor market. It can be very useful to vocational training policy which should be guided in the short-run by this information. It can also be useful as one input to the dialogue about longer-run general educational policies, when used in conjunction with the type of broad array of data, factors, and perspectives discussed in this report.

Real MIS capabilities -- which include the ability to undertake studies and analyze policies -- mean much more than technical abilities. None of the policies argued for in this report can be decided on the basis of information -- the information itself is disputed, and the same information can be interpreted very differently. Thus, the building of a useful MIS and policy analysis capacity must recognize the political nature and interpretation of information. This implies that an MIS division has some freedom and independence of judgment, an orientation toward the promotion of debate among different points of view, and negotiation skills to help develop policy solutions.⁷⁸

Democratization in El Salvador, as in other countries, will depend on the democratization of information and the greater opening of politics to participatory and conflictual processes. MIS systems that pay attention to qualitative contextual issues and debates can become tools for helping to keep a long-term policy dialogue going. If developed to function in a decentralized and participatory way, MIS systems can be tools for strengthening democratic governance. In the same way, the information and suggestions in this report need to be examined as part of a broad, ongoing democratic dialogue about educational and economic policy directions.

FOOTNOTES

- ¹See e.g., Blaug (1970).
- ²Psacharopoulos et al. (1983) and Klees (1994).
- ³Psacharopoulos et al. (1983).
- ⁴See Klees (1994) for a review.
- ⁵Haveman and Wolfe (1984).
- ⁶Windham (1993, p.65). Also see Windham (1975) for a strong critique of cost-benefit analysis and manpower forecasting.
- ⁷Hanushek (1980, p.240).
- ⁸See, e.g., Adams et al. (1992), Horton et al. (1991), and Psacharopoulos (1991).
- ⁹See, e.g., Dör (1971) and Lasswell (1971) for early hopes for the policy sciences, Rein (1976) and Cohen and Garet (1976) for early critiques and calls for more modest expectations, and Dryzek (1990) and Fischer (1990) for the increasing ties to participatory democracy.
- ¹⁰USAID (1994).
- ¹¹See, e.g., the excellent work of Gregory (1992, 1993).
- ¹²Gregory (1993, p.2).
- ¹³The data presented in Tables 2.1 and 2.2 come from Gregory (1993) and the discussion of participation rates draws heavily on that of Peter Gregory. See Gregory (1993) for more details.
- ¹⁴Gregory (1993, p.4) calls it "too large to be credible."
- ¹⁵USAID (1993, p.37).
- ¹⁶See FUEM (1992) for this data and more analysis of gender differences in education and the economy.
- ¹⁷The data above come from Gallagher (1992), FUEM (1992), and USAID (1991, 1993, 1994).
- ¹⁸Ibid.
- ¹⁹See Gallagher (1992), USAID (1991), and UNESCO (1992).
- ²⁰See USAID (1991) and FEPADE (1993).
- ²¹The various labor market analyses of Peter Gregory (1993, 1992) were especially helpful to this report.
- ²²Discussions of GDP refer to real GDP, corrected for inflation, unless otherwise indicated.
- ²³Infante and Klein (1991).
- ²⁴See USAID (1991) and FUEM (1992)
- ²⁵Differences in sectoral definitions account for the inconsistency between Tables 3.3 and 3.4 in women's employment in services.
- ²⁶See Gregory (1993) for more details.
- ²⁷Gregory (1993, p.7).
- ²⁸See Gregory (1993) for more analysis of this 1991 data.
- ²⁹Data in this section come from Gregory (1993).
- ³⁰See Infante and Klein (1991).
- ³¹Infante and Klein (1991).

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- ³²For more details see USAID (1991) and FUEM (1992).
- ³³Gregory (1993) and Letona et al. (1991).
- ³⁴Gregory (1993). Horton et al. (1991) imply that underreporting may be less than some analysts believe, because a sharp drop in earnings appears to be consistent with a much milder drop in GDP/ capita across many nations during the eighties.
- ³⁵USAID (1993).
- ³⁶USAID (1991) and UNESCO (1992)
- ³⁷Seligson (forthcoming). In the study, land-poor is defined as having less than 1 mz. of land, which, on average, is estimated to generate income equal to about half the average wage in industry.
- ³⁸Data in this section on emigrants comes from Funkhouser (1992) unless otherwise referenced.
- ³⁹Estimated by CENITEC.
- ⁴⁰Funkhouser (1992). The comparison with 1992 data underestimates the degree to which those who emigrated between 1980 and 1987 were the more educated members of Salvadoran population in those earlier years.
- ⁴¹Funkhouser (1992) and Montes (1987).
- ⁴²Ministry of Planning and Coordination of Economic and Social Development (1993).
- ⁴³Seligson (forthcoming).
- ⁴⁴See e.g., Killick (1981), Meier (1989), Klamer et al. (1988), Reich (1991), Thurow (1992), and Ljungqvist (1993).
- ⁴⁵There is a large and growing literature in El Salvador that debates the nature of economic and development policy. For example, see Bulmer-Thomas (1991), Martinez (1991), Letona et al. (1991), Levy (1992a, 1992b), Lopez (1992), Arriola (1993), IDESES (1993), Merlos (1993), and Rosa (1993).
- ⁴⁶See, e.g., ECLAC (1992a, 1992b), and Lopez, M. (1992).
- ⁴⁷Bello and Rosenfeld (1990) and Wade (1990). See also Levy (1992a) and World Bank (1993).
- ⁴⁸ECLAC (1992b). Some of the UN proposals on "adjustment with a human face" (Cornia, Jolly, and Stewart, 1990) and "social reform" (IDB/UNDP, 1993) adopt a strategic perspective. Also see Reich (1991) and Thurow (1992).
- ⁴⁹Arriola (1992).
- ⁵⁰See, e.g., Streeten (1971), deJanvry (1981), and Arvin (1985).
- ⁵¹Recommendations for more democratic and participatory forms of governance, even within the workplace, can accompany free market and managed trade strategies as well, but they are more commonly an integral part of internally-oriented strategies, especially in terms of workplace organization.
- ⁵²de Janvry (1986).
- ⁵³Klees and Papagiannis (1989) and Levin (1983).
- ⁵⁴Montoya (1993).
- ⁵⁵Klees and Papagiannis (1989).
- ⁵⁶ECLAC (1992a, 1992b).
- ⁵⁷Reich (1991) and ECLAC (1992a, p.106).
- ⁵⁸ECLAC (1992a).

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- ⁵⁹See, e.g., Carnoy (1982), Carnoy and Levin (1985), Spring (1990), and Corragio (1992).
- ⁶⁰See Windham (1975) for an early example, and Klees (1986) and Corragio (1992) for a discussion of the critical literature.
- ⁶¹Streeck (1990).
- ⁶²Goodgame (1993).
- ⁶³See, e.g. Letona et al. (1991), Levy (1992a, 1992b), Martinez (1991), Arriola (1993), and Merlos (1993).
- ⁶⁴UNESCO (1991) and UNDP (1992).
- ⁶⁵See, e.g., Dryzek (1990) and Fischer (1990).
- ⁶⁶Middleton et al. (1993, p.53).
- ⁶⁷Mayo et al. (1976) and Klees and Wells (1983).
- ⁶⁸See references in footnote 45, as well as ECLAC (1992a, 1992b) Faux (1988), and Klees and Papaginnis (1989). Especially relevant is a paper by Arriola (1993) discussing industrial policy for El Salvador.
- ⁶⁹Levin (1983) and Levin and Rumberger (1989).
- ⁷⁰Psacharopoulos and Tzannatis (1991).
- ⁷¹See Padavic and Reskin (1994) for an excellent discussion.
- ⁷²When not specified, supporting information is taken from USAID (1994).
- ⁷³See Gallagher (1993a, 1993b) for discussion of taxation in El Salvador.
- ⁷⁴Myers (1990).
- ⁷⁵Colclough (1991).
- ⁷⁶Haddad et al. (1990).
- ⁷⁷In Mexico, one of the first responses to the adoption of NAFTA was a plan to increase the investment in higher education by 20%.
- ⁷⁸Dryzek (1990) and Fischer (1990).

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