

CEPAL Review

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Notes and explanation of symbols

The following symbols are used in tables in the *Review*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (−) indicates a deficit or decrease, unless otherwise specified.

A point (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

References to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.

Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

Development and equity

The challenge of the 1980s

*Enrique V. Iglesias**

This article reproduces, with a few changes, the Report which the author presented to the nineteenth session of CEPAL in his capacity as Executive Secretary of the Commission.

In the first part, he describes some of the main features of the international situation and the regional scene at the beginning of the 1980s. With regard to the international situation, he stresses the dangers of the protectionism that is reappearing in the industrialized economies; with respect to the regional scene, he stresses the inconsistency between the expanding and increasingly diversified base of production and the continuation of unresolved distribution problems and social inadequacies.

In the second part, he takes up two key concepts in the CEPAL theory of development—the centre-periphery system and industrialization—and uses them as guidelines for dealing with the problems of the present and the future. In so doing, he does not seek to make a retrospective eulogy of those concepts, but rather to use them to interpret some of the pressing economic problems of the region.

In the third part, he outlines the strategic problems of the coming years which, in his view, are those pertaining to international trade, external financing, the energy transition and food security.

In his final observations, he summarizes his vision: whilst it is very important to solve the external problems, it is on the domestic front that the groundwork for the region's development must be laid. On this front, he draws attention to three challenges: the reconciliation of economic and social efficiency, the modernization of private enterprise and of the State, and the bringing of all national policies into line with the criterion of integral development.

*Executive Secretary of CEPAL.

I

The international situation and the regional economic scene

A. THE INTERNATIONAL ECONOMIC SCENE

1. *The main features of the 1970s*

Two years ago, in our statement at La Paz,¹ we noted that the 1970s would be remembered for two main features: the culmination of a cycle of unprecedented growth begun in the 1950s, and the steep decline in that growth trend in the middle of the decade which had just ended.

This is not the place to recall, much less to describe in detail, the analyses carried out from the widest variety of angles, including of course those made by CEPAL into the causes of the phenomenon. It is enough to repeat what we have said on many occasions: that the rises in petroleum prices as from 1973 cannot really be regarded as the decisive factor in this setback. It would not be right to exaggerate their importance or to overlook other relevant developments. In fact, these rises (which only represented the correction of the distortions which had mounted up over a long period in which world economic growth was based on an artificially abundant and cheap supply of petroleum) in one way strengthened and in another way reflected a number of upheavals which had begun to be manifested in the economic evolution of the industrialized countries towards the end of the 1960s—in both the real and the financial spheres—and whose consequences hit the developing countries with singular force. Further on we shall analyse these factors in greater detail. For the time being, however, we should like to confine ourselves to recalling their main characteristics.

The first item of note is the persistence of the recessive situation which has characterized the world economy since 1974. From then until 1979 the rate of world economic growth stood at

¹ Enrique V. Iglesias, "Latin America on the threshold of the 1980s", *CEPAL Review*, No. 9, December 1979.

about 3.5%, in contrast with that of close to 5.5% recorded during the period 1960-1972. This rate was, moreover, markedly lower in the case of the developed market-economy countries. Naturally, this decline in the pace of economic growth had a negative impact on the evolution of world trade, which had played a very dynamic role during the preceding period but which in the 1970s expanded at a rate of only around 5.5% annually, in comparison with the figure of 8% recorded during the preceding decade.

Paradoxically, this drop in the growth rate was accompanied by a marked inflationary trend, the virulence of which may be gauged by observing the rates of variation of price levels in the industrialized countries. These countries broke with their historic inflation rates, which were usually lower than 5% a year, to reach rates close to 10% annually from 1974 onwards. The seeming paradox of this phenomenon occurring during a period of recession becomes easier to understand if account is taken of some of the theses which CEPAL has been putting forward since the middle of the previous decade concerning the structural nature of some causes of inflationary processes. Thus, in addition to the rises designed to determine more realistically the true social cost of petroleum and other basic commodities, other causes of the greater intensity and persistence of the inflationary processes involved the facility with which producers have been able to pass their cost increases on to the prices paid by consumers, the defects in price formation mechanisms in many sectors of economic activity, the insufficient rise in the productivity of capital and manpower, and the rapid growth of international liquidity during recent years.

This leads us to draw attention to a third characteristic in the economic pattern of the decade which has just ended, namely, that the economic difficulties of a structural nature which began to make themselves felt in some industrial centres early in the past decade, followed by the petroleum price adjustments at a later date, generated great disequilibria in the balance-of-payments current accounts of the majority of countries in the world as of 1974, so that it is estimated that the surplus on current account of the oil-exporting countries in 1980

amounted to approximately US\$ 115 billion, while the developing oil-importing countries and the industrialized economies recorded deficits of about US\$ 70 billion and US\$ 50 billion, respectively. It should be borne in mind that after the initial rises in the price of petroleum, this went down in real terms between 1975 and 1978, and was adjusted again in the last two years, with the result that the petroleum-exporting countries have managed to re-establish a current account surplus of similar proportions to the maximum recorded by them in 1974.

These disequilibria have led to a significant process of redistribution of current account surpluses and deficits between the OPEC countries, the industrialized economies and the developing countries —a process which would not have been possible without the unusual growth of the international financial markets, which was brought on precisely by the disequilibria referred to. This does not mean that that extraordinarily large-scale redistribution has taken place automatically, or easily. On the contrary, in order to effect it, it was necessary to solve problems of great complexity, many of which had never before been experienced. At all events, the disequilibria recorded in the external accounts of the different countries and the mechanisms used to promote the mass redistribution of financial resources at the international level constituted another of the leading characteristics of the decade just ended.

2. *The prospects for the 1980s*

The persistence of the characteristics which determined the uneven evolution of the international economy during the past decade and its recent decline means that, in the best of cases, the prospects for the 1980s are mediocre and even, from a more realistic point of view, disturbing. Considering the two most probable scenarios, a recent report² by the Organization for Economic Co-operation and Development (OECD) predicts annual economic growth

²See *Facing the Future: Report of the OECD Interfuture Project*.

rates for the period 1980-1990 of 3.6% or 3.0%, depending on whether the dynamism of the world economy remains concentrated in the industrialized countries or is diffused to a greater extent towards the developing countries. In 1980 the World Bank, for its part, had to revise the estimates made the preceding year in this respect, lowering the rate of growth foreseen for the 1980s to 3.7% annually in the most optimistic or 'high growth' hypothesis and to only 3.0% in the 'low growth' hypothesis, which, moreover, the Bank regards as being the most probable. These estimates imply the continuation of the weak rate of expansion of the world economy recorded during the past decade and even entertain the possibility that growth will decelerate.

These projections are explained by the structural nature of the factors behind this trend. I believe that by now the perplexity about their cyclical or long-standing character should have been cleared up. These are trends which originated in difficulties affecting those factors which have so far constituted the driving force behind world economic growth, and they make themselves felt essentially in the industrialized countries. This is reflected in the persistent drop in labour productivity and investment; the slow growth of the process of capital formation; the declining profitability of investment, as seen in the small share accounted for by profits in national income; the obstacles which the process of technological innovation runs up against in some countries, and the appearance of idle capacity in a growing number of key industrial sectors. Taken together, these factors are responsible for the gradual loss of competitiveness of some industrialized countries compared with their more efficient partners and even with an increasing number of developing countries. They are also forcing them to tackle a process of 'reindustrialization' aimed at modernizing those branches of production which have become less competitive and adjusting their economies to the new costs of energy and environmental protection. In turn, this is giving rise to a world-level process of industrial redeployment towards some countries on the periphery.

Although in the main developed economies these trends were in effect even prior to

the petroleum crisis, the rise in prices and the insecurity as regards supplies of this fuel and other strategic raw materials have been partially responsible for creating rigidities on the supply side which adversely affect the smooth functioning of the production systems of the industrial countries.

These rigidities are heightened by the fact already referred to that the economies of the industrialized countries have been subject to continuous inflationary pressures, even though their growth has been slow and their unemployment rates very high. Moreover, these inflationary pressures remained even during the period 1975-1978, when there were no rises in the prices of petroleum. These pressures, in their turn, have introduced an element of greater caution in the management of these economies, which is reflected in a general reluctance to adopt policies aimed at returning to normal levels of economic activity.

The structural nature of this situation becomes even more evident if it is borne in mind that these trends are rooted in the political, social and cultural conditioning factors created when the industrial societies themselves were expanding and developing and are especially a result of changes in the values or preferences of the public, the labour force and consumers. Thus, it is obvious that the emphasis on the quality of life in comparison with purely material progress, the quest for greater personal and community fulfilment, and the concern for the preservation of the environment in industrial societies have a strong influence on the direction and intensity of their development processes.

In these circumstances, it is not surprising that so thorough a break with the course followed by the world economy since the end of the war poses problems which cannot be adequately explained in the light of conventional economic wisdom and that it has led to disconcerting perplexities, impassioned debate and revisionist movements arising from completely opposite approaches.

According to some of these schools of thought, we are said to be living in a post-Keynesian period, in which the problems of the industrialized economies can no longer be resolved by formulas aimed at increasing effec-

tive demand through macroeconomic policies which imply massive intervention on the part of the State. Thus, other schools have recently emerged which stress aspects related to 'supply', whether in the sense of the higher costs associated with the use of non-renewable resources such as petroleum and with the preservation of the environment, or in the sense of the rigidities introduced by the new preferences of the labour force, or, finally, as regards the limitations placed on the mobilization of resources for investment due to wage increases and the need to allocate such resources, in fact, to activities related to energy, the development of natural resources and environmental protection. From another angle, we see the development of a controversy of worldwide scope, which is particularly lively in the case of Latin America, concerning the justification, areas and limits which should be assigned to public management in the economy *vis-à-vis* the role of market mechanisms.

The emergence of and the struggles between different schools of economic thought are the natural reaction to a period characterized by change, turbulence and uncertainties which the world had not experienced for at least the past 25 years. The fact that, beyond the recessive or inflationary syndrome associated with the enormous financial disequilibria which characterized the past decade, there are also structural trends such as those I have just described in action, makes us think that we are dealing with a long-standing, rather than a cyclical process, which cannot be understood or handled on the basis of conventional formulas and categories of analysis. If this is true, then even in the best of cases the turbulent decade which is now ending is bound to be followed by a period of transition in which the world economy must face very profound structural changes.

B. THE REGIONAL ECONOMIC SCENE

The sombre and uncertain prospects which are to be glimpsed on the international scene present a difficult challenge for the development of Latin America in the decade now beginning and, in particular, during its first five years.

Nevertheless, when analysing the options

open to the region during this period, it is necessary to assess not only the external and internal factors which will tend to restrict its economic and social growth, but also those factors which will facilitate its advance, for there can be no doubt that in its attempts to progress in the threefold and basic task of achieving a development process which is at once more equitable, dynamic and autonomous, Latin America now has greater assets than in the past, although at the same time it is limited by the persistence or increase of old restrictions and the emergence of new problems.

Naturally, obvious personal and time limitations prevent me on this occasion from drawing up a systematic balance sheet of the factors which favour or obstruct the progress of the region towards more advanced states of economic and social development. And obviously, too, any balance sheet of this kind would have to take due account of the different incidence or weight of these positive or negative elements in each one of the very diverse national situations present in the region.

In spite of these limitations —of which we are very much aware— allow me to present some background information and opinions on four main aspects of the recent pattern of development of Latin America which, together with others which we will consider in greater detail at the end of our report, will, in our opinion, have a very strong impact on the region's evolution in the decade on which we are now embarking. These four aspects are the ambivalent characteristics of the social development achieved; economic growth and its effects on Latin America's capacity to adapt to external contingencies; the process of expansion and diversification of exports, and the problems raised by the intensification and spread of inflationary processes throughout the region.

1. *The ambivalent features of social development*

Two years ago, when I analysed the great challenges which, in my view, Latin America would have to face up to during this decade (see footnote 1), I drew attention first to the

challenge of improving the social irradiation of economic growth so as to advance in the vital task of eradicating critical poverty and building societies in which income and, above all, opportunities are distributed more equitably.

I now wish to reaffirm that opinion and also reiterate the conviction I expressed then that in economies which have attained a degree of development such as those of Latin America, the vanquishing of extreme poverty constitutes a perfectly possible mission, so that, at least from a strictly economic point of view, there is no justification for the survival of vexing situations of neediness and for a failure to satisfy basic needs, such as those for food, health and education.

To say that a mission is possible certainly does not mean (and this should be reiterated) that it is easy. Quite the contrary, since it would be naive to overlook the gigantic organizational efforts which it would have to be made at all levels and the unwavering political will which it would be necessary to summon up and sustain in order to reorientate the development process in such a way that it would be possible to advance quickly and steadily in the great task of eliminating both the most pressing manifestations of extreme poverty and its main causes.

The enormous magnitude of this challenge is easier to grasp if account is taken of the deep-rooted and complex nature of the factors responsible for poverty and inequality in our countries. It must be recalled that, with few exceptions, Latin American societies have traditionally been characterized by situations of acute inequality in the distribution of income and wealth and in access to opportunities. And it is also necessary to recall that the deepest roots of that inequality are connected with such transcendental far-off but long-lasting historic phenomena as the rise and consolidation—during the Conquest and throughout the long colonial period—of highly stratified and structurally inequitable societies.

Naturally, the causes and manifestations of the inequality inherited from the colonial period were gradually modified in the century which followed Independence, during which the incidence of servile forms of work was attenuated, slavery was eliminated, and the

majority of our countries began to be integrated into the new international economy, receiving to their greater or lesser benefit the impulse of the dynamic forces generated by the Industrial Revolution. Those changes were consolidated over the past 50 years as the pattern of development altered, the pace of rural-urban migration stepped up, State economic and social action was considerably expanded and diversified, and their forms of insertion in the outside world were transformed.

In spite of these and other changes which, in general, helped to lighten the consequences of inequality and altered the level and characteristics of development, the concentration of income and wealth remained substantial. Thus, in accordance with the most recent calculations referring to seven countries which together represent nearly 80% of the population and slightly over 90% of the product of Latin America,³ it is estimated that in 1975 the richest 10% of the households were receiving slightly more than 47% of the total income, while the poorest 40% of the households did not even receive 8%. The high degree of inequality revealed by these figures becomes even more striking if the average incomes of the two groups are compared, for the average income of the first group was over 24 times that of the second group in 1975.

The most sobering fact brought out by these figures, however, is that between 1960 and 1975 inequality, far from being attenuated, increased in that the share of the income received by the poorest 40% of the population fell slightly and the share of the 10% of the population in the richest group and that of the 20% in the group just below the richest rose slightly (see table 1).

It is true that because these changes in the direction of greater inequality took place during a period of rapid economic growth, they were accompanied by increases in the absolute income of all groups, including those at the bottom of the distribution scale. But these increases were very different in each case. While the average income of the poorest 40% of households rose by less than US\$130 (at 1970

³These countries are Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Table 1
LATIN AMERICA: HOUSEHOLD INCOME DISTRIBUTION IN THE REGION
AS A WHOLE IN 1960 AND 1975^a

Income strata	Share in total income		Income per household ^b (1970 dollars)	
	1960	1975	1960	1975
Poorest 20%	2.8	2.3	334	394
Next poorest 20%	5.9	5.4	707	902
Poorest 40%	8.7	7.7	520	648
30% following the poorest 40%	18.6	18.1	1 483	2 023
20% preceding the richest 10%	26.1	26.9	3 110	4 497
Richest 10%	46.6	47.3	11 142	15 829
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>2 389</i>	<i>3 348</i>

^a CEPAL estimates on the basis of national surveys for seven countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela).

^b Corresponds to the concept of disposable income per household, estimated on the basis of the national accounts of each country.

values) during this period, that of the richest 10% rose by nearly US\$ 4 700. In other words, while the poor were only slightly less poor in 1975 than in 1960, the rich became much richer between those years.

Nevertheless, if we wish to gain a fuller picture of the social development which has occurred in Latin America during the last few decades, some additional data must be taken into account. It must be borne in mind that although income constitutes the main determinant of standards of living and well-being, these also depend on other variables which may evolve independently and even divergently from income. Among these variables, three which have a decisive effect on the quality of life and, above all, on the opportunities people have to improve their living conditions are education, health and nutrition. Therefore, no social development analysis can fail to examine and assess the way in which these variables have evolved.

On carrying out this task, it must be concluded that in the great majority of our countries there have been advances which, although not all of them have been as rapid as might have been desired, have been significant and have had a positive impact on distribution.

Let us consider first the evolution of some of the basic indicators which describe the educational situation in Latin America. As may be seen from table 2, for the region as a whole the rate of enrolment of children from 6 to 11 years was slightly over 57% in 1960, while two decades later it was over 82%. During this period, progress was even more rapid in the case of adolescents from 12 to 17 years, whose enrolment coefficient nearly doubled, rising from 35% to 63%. Where progress was truly explosive, however, was in the case of the enrolment of young people between the ages of 18 and 23 studying in institutions of higher education, for between 1960 and 1980 this rate increased more than fourfold, rising from slightly over 6% to 26%.

It should be emphasized that this increase in rates of enrolment was not only rapid but also widespread, in that it occurred at all three levels of education in all the countries of the region.

Thanks to these advances, the enrolment of children from 6 to 11 is now close to total not only in Argentina, Barbados and Guyana—in all of which it was very high already in 1960—but also in Costa Rica, Chile, Cuba and Jamaica, where 20 years ago it fluctuated in the

neighbourhood of 75%. Progress has been even more rapid in relative terms in countries such as Bolivia, Brazil, Colombia and Honduras, where in 1960 over half of the children from 6 to 11 were not enrolled in basic education, whereas today the figure enrolled is between 70% and 77%, while progress is still more notable in Panama, whose coefficient rose from 68% to 96%, and above all in Mexico, where it climbed from 58% to 94%.

Analysis of the rates of enrolment of adolescents from 12 to 17 years of age and of young people from 18 to 23 years shows equally significant progress which, for reasons of time, I shall refrain from describing but which is clearly indicated by the figures in table 2.

There are, however, two additional considerations which I consider it indispensable to dwell on in order that the profound significance of the rapid and widespread advance reflected in these statistics may be appreciated.

The first of these is that the significant rise in all these coefficients took place in a period in which the young population of Latin America was soaring. For this reason, it would have required a very considerable increase in absolute terms in the resources allocated to the education sector just to maintain the enrolment rates. The fact that in these circumstances those coefficients should have risen markedly in nearly every country is an indication of the magnitude of the truly praiseworthy effort

Table 2

LATIN AMERICA: RATES OF ENROLMENT BY AGE, IN 1960 AND 1980

(Percentages)

	6-11 años		12-17 years		18-23 years	
	1960	1980	1960	1980	1960	1980
Argentina	91.2	99.9	48.1	72.7	13.2	36.7
Barbados	93.5	98.5	50.5	65.2	1.3	8.6
Bolivia	45.1	76.6	29.0	54.2	5.0	17.1
Brazil	47.7	76.2	29.6	58.6	4.7	32.0
Colombia	47.9	70.0	28.8	63.8	4.4	32.9
Costa Rica	74.4	97.5	35.7	54.7	8.0	21.4
Cuba	77.7	100.0	43.0	83.4	6.6	29.9
Chile	76.4	100.0	54.7	86.5	7.2	22.2
Ecuador	66.3	80.0	30.3	60.8	5.1	28.5
El Salvador	48.7	69.2	40.3	58.1	8.5	18.9
Guatemala	32.0	53.3	17.7	33.8	3.6	10.1
Guyana	90.5	95.6	62.8	65.9	4.7	10.9
Haiti	33.6	91.4	16.4	21.9	1.9	4.3
Honduras	49.5	71.3	24.6	44.7	3.2	14.8
Jamaica	74.7	94.8	57.3	71.6	2.7	10.4
Mexico	58.4	94.2	37.4	67.3	4.7	18.2
Nicaragua	42.9	60.8	29.7	53.7	3.6	18.6
Panama	68.3	95.7	50.3	83.2	12.7	43.3
Paraguay	69.7	80.0	44.8	51.9	5.8	13.3
Peru	56.7	83.9	43.2	84.0	13.0	32.6
Dominican Republic	66.8	82.2	39.4	64.4	3.7	20.6
Trinidad and Tobago	66.1	77.5	51.8	47.6	3.3	7.6
Uruguay	89.9	-	53.2	67.2	19.1	24.3
Venezuela	68.8	83.2	49.0	60.9	8.6	24.0
<i>Average</i>	57.3	82.3	35.4	63.3	6.3	26.1

Source: CEPAL, on the basis of UNESCO data.

made not only by the governments of the region but by Latin American society as a whole.

The second observation is no less important and is related to the redistribution aspects of this expansion of the education system and in particular to its implications for equality of opportunity. This significant increase in the coverage of education has implications which are clearly favourable from the point of view of distribution, in that it benefits mostly and in some cases exclusively the middle sectors and the relatively poorer groups of the population. The reason for this is simple but fundamental: for a long time the overwhelming majority of the children of the rich have completed their basic education, a very high proportion of them have completed their secondary education, and a much higher percentage of them than of children from middle-income and especially low-income households have entered institutions of higher learning. Consequently, the broadening of the coverage of the education system systematically favours those who previously had no access to it, that is to say, depending on national circumstances and the levels of education in question, primarily the children of poor or middle-income families.

Very similar considerations apply with respect to the participation of high, middle and low-income groups in the social progress reflected by the evolution of a basic health indicator such as infant mortality. Here again it may be noted that significant and widespread progress has been made, with the result that in the region as a whole the infant mortality rate has dropped from 105 per thousand in the first half of the 1960s to 73 per thousand in the second half of the last decade (see table 3). And here again it is apparent that this advance is due primarily and virtually exclusively to the improvement of the situation of the poorer groups, since for many years previously the richer sectors, including the middle-income sectors, had the resources to keep their children from dying before they were a year old.

If, for the sake of brevity, our final consideration is that relating to a major indicator of nutrition such as the supply of calories as a percentage of average requirements, the picture which emerges is similar, as are, to some extent, its social implications. As may be seen

from table 4, between the beginning of the 1960s and the middle of the past decade the respective coefficients rose in all the 19 Latin American countries for which information is available, and in 11 of them their value was over 100% during the last period referred to. Of course, as it is true of all averages, this one says nothing about the differences which may exist at a given moment between the coefficients corresponding to the different socio-economic strata, but even so the increase over time must have been due primarily to the rise in the coefficients of the groups in the lower half of the distribution scale, since on the one hand—to repeat an observation made earlier—it is reasonable to suppose that the other groups have long been meeting their basic calory needs, and on the other, the increase in consumption of the higher groups, outside of certain limits, runs counter to obvious restrictions of a biological nature.

Table 3

LATIN AMERICA: INFANT MORTALITY
(Rates per thousand live births)

	1960-1975	1975-1980
Argentina	54	41
Barbados	...	...
Bolivia	225	142
Brazil	112	82
Colombia	85	59
Costa Rica	80	45
Chile	107	62
Ecuador	132	83
El Salvador	123	79
Guatemala	128	89
Guyana	...	...
Haiti	171	121
Honduras	137	95
Jamaica	...	...
Mexico	86	60
Nicaragua	137	96
Panama	67	38
Paraguay	81	49
Peru	161	109
Dominican Republic	110	74
Trinidad and Tobago	...	...
Uruguay	49	42
Venezuela	77	45
<i>Average</i>	<i>105</i>	<i>73</i>

Source: CELADE, on the basis of official information.

Table 4
LATIN AMERICA: CALORY INTAKE AS
A PERCENTAGE OF AVERAGE
REQUIREMENTS
(Percentages)

	1961-1963	1975-1977
Argentina	137.9	143.1
Barbados	...	...
Bolivia	69.5	91.0
Brazil	102.8	108.8
Colombia	94.3	98.4
Costa Rica	93.2	107.2
Cuba	...	...
Chile	110.1	114.1
Ecuador	80.4	92.0
El Salvador	78.9	90.7
Guatemala	82.5	93.9
Guyana	...	...
Haiti	85.0	88.4
Honduras	95.6	102.4
Jamaica	...	...
Mexico	110.9	116.8
Nicaragua	95.8	107.6
Panama	100.3	102.1
Paraguay	108.4	122.3
Peru	96.8	99.2
Dominican Republic	81.9	92.1
Trinidad and Tobago	...	...
Uruguay	124.9	132.7
Venezuela	95.6	109.8
<i>Average</i>	<i>104.8</i>	<i>110.9</i>

Source: CEPAL, on the basis of data from FAO and WHO.

Naturally, recognition of the advances shown by the statistical data analysed and a description of their favourable implications with regard to distribution is no indication whatsoever—and stress must be laid on this point—that the progress made in fields like education, health and nutrition is sufficient. Much less is it intended to imply that the present situation is satisfactory. Nothing could be further from our intention or from our way of viewing the problem. As we pointed out at the beginning of our observations, we still think that the achievement of a better social distribution of the fruits of economic growth should constitute the main objective of development policies in Latin America. And this conviction is born of an examination of the socio-economic

situation which prevails in our countries, which in the majority of cases—and notwithstanding the progress attained— suffers from gaps and disequilibria which are not only ethically unacceptable but are also economically unjustifiable in Latin America today.

2. Growth and transformation of the economy and greater defence capacity of the region

In our addresses in Port of Spain, Guatemala City and La Paz, we analysed the substantial growth and the considerable transformation of the economy of Latin America during the past 30 years and pointed out that these developments help to explain what we call the greater defence capacity of the region in dealing with contingencies coming from the exterior.

To judge the magnitude and unity of this growth and transformation process, it is enough to repeat that in the course of the past three decades the total product of Latin America increased fivefold in real terms while that of manufacturing rose more than sixfold. At the same time—and in particular during the previous decade, agriculture advanced considerably and showed substantial diversification, financial activities were expanded and modernized, and the investment coefficient rose gradually but persistently. Of even greater importance, however, is that over those 30 years—and again with greater force in recent years— both the education level and the skills structure of the labour force improved markedly in virtually all the countries of the region.

As a result of these advances and changes, Latin America now has a broader, more highly diversified and flexible production base than in the past. And, in turn, as a consequence of this structural transformation, there has been an increase in the region's capacity both to meet sudden challenges from the external economic situation and to seize the opportunities offered by the changing international scenario.

Since in our previous statements we have pointed to some of the many developments which reflect these new and more favourable structural characteristics of the Latin American economy, on this occasion we wish to put our emphasis primarily on the significance of two events of recent years which in our view,

constitute new and important indications of that increased capacity for defence and adaptation available to the region today.

The first of these is the relatively high economic dynamism displayed by Latin America over the last two years. As may be seen from table 5, the region's overall economic growth rate, after falling to a level of only 3.3% in 1975 because of the international crisis that year and oscillating in the neighbourhood of 4.8% for the next three years, was nearly 6% in the period 1979-1980.

It is true that this rate was achieved partly because of the marked elevation of external indebtedness in the majority of Latin American countries. It is also true that it was slightly more than one point below the very high economic growth rate achieved by the region, on average, during the period 1970-1974.

To assess its real significance, however, it is necessary to bear in mind the very different circumstances which prevailed on the international economic scene at the beginning of the previous decade and during the past two years. In the former period, both the production of the industrialized economies and world trade were in full expansion, and this acted as a powerful stimulus for the growth of the economies of the periphery.

During the biennium 1979-1980, however, as we have already pointed out, the situation was very different. On the one hand, economic activity in the industrialized countries grew by only a little over 3% in 1979 and by only 1.5% in 1980, while it grew much more slowly in the case of the United States, which is well known to have special influence on the export possibilities and ultimately on the economic growth

Table 5

LATIN AMERICA: EVOLUTION OF THE GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1970-1974	1975	1976	1977	1978	1979	1980 ^a
Argentina	4.1	-0.9	-0.2	6.0	-3.9	6.8	1.1
Bolivia	5.8	5.1	6.8	3.4	2.8	1.4	1.0
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	8.0
Colombia	6.9	4.3	4.2	4.8	8.8	5.1	4.1
Costa Rica	7.1	2.1	5.5	8.9	5.7	4.3	1.7
Cuba ^b	8.7 ^c	12.3	3.5	3.1	8.2	1.9	1.4
Chile	2.6	-14.4	3.8	9.7	8.3	8.2	6.5
Ecuador	8.6	6.8	9.3	7.5	5.4	5.4	6.3
El Salvador	4.9	5.6	4.0	5.9	4.4	-1.6	-9.9
Guatemala	6.4	1.9	7.4	7.8	5.0	4.5	3.4
Haiti	4.7	2.2	5.3	1.3	4.4	4.7	5.2
Honduras	3.5	-2.0	7.0	5.8	7.9	6.8	1.3
Mexico	6.2	4.1	2.1	3.3	7.3	8.0	7.4
Nicaragua	5.3	2.2	5.0	6.3	-7.2	-25.1	10.7
Panama	5.2	0.6	-1.1	1.6	4.1	5.7	4.9
Paraguay	6.4	6.3	7.0	12.8	10.8	10.7	11.0
Peru	4.8	4.5	2.0	-0.1	-0.7	3.4	3.1
Dominican Republic	10.1	5.2	6.7	5.5	2.2	4.8	5.2
Uruguay	1.3	4.8	4.2	1.8	6.2	8.7	4.5
Venezuela	5.2	5.9	8.4	6.8	3.1	0.7	1.6
Latin America ^d	7.1	3.3	5.0	4.8	4.7	6.0	5.7

Source: CEPAL, on the basis of official figures.

^aPreliminary estimates, subject to revision.

^bGrowth rates relate to the material product.

^c1971-1974.

^dExcluding Cuba.

of many countries of the region. On the other hand, this sluggish behaviour of the industrialized economies and the marked protectionist trends discernible in not a few of them were partially responsible for the perceptible reduction in the dynamism of world trade, thereby limiting the possibilities for Latin American exports to expand further. Thus, after increasing at an average rate of approximately 5.5% during the period 1977-1979, the volume of world trade rose by barely 1% in 1980.⁴ Although the main cause of this marked reduction in the growth rate of world trade was the drop of 10% in the volume of petroleum exports, it was also due to the much slower expansion of exports of both manufactures and agricultural commodities in 1980.

Actually, the notable decline in the dynamism of the world economy in 1980 is eloquently demonstrated by the fact that during that year four key variables (total production, industrial production, total trade and trade in manufactures) grew at the lowest rates recorded in the past quarter century, with the sole exception of those for 1958 and 1975.

Thus, it is in this external context characterized by slower growth both of the economic activity of the centre countries and of the volume of world trade that consideration should be given to the economic advance of the order of 6% annually achieved by the region during the period since our meeting in La Paz early in 1979.

And it is also in the context of that very changing international scene, which was in general more unfavourable than that which prevailed up to 1973, that we should analyse the second main fact to which I wish to refer, i.e., the notable expansion and increasing diversification of Latin American exports during the past decade.

3. *The expansion and diversification of exports*

In 1970 the region exported goods to a total value of US\$14.3 billion; by 1980 these sales had increased well over sixfold, amounting to close to US\$ 92 billion. Naturally, this increase

is partly a reflection of the effects of international inflation—which bore some of the responsibility for raising the dollar prices of many products exported by the region—and partly the result of the repeated and substantial rises in international petroleum prices since 1973. Nevertheless, it also constitutes a clear demonstration of the increasing capacity of Latin America to place its products on the world market. If from the region as a whole we exclude the oil-exporting countries, and if instead of considering the value of the sales we consider their volume, in short, if we analyse the volume of exports of the non-oil-exporting countries, we find that over the past decade it increased by 111%. What is more significant however, is that the growth rate of the volume of exports of those countries rose from an average of 4.8% during the five-year period 1971-1975 to one of 8.7% in the next five years. In other words, the rate of expansion of the real external sales of the non-oil-exporting economies of the region increased very sharply precisely during the period in which the dynamism of the industrialized economies, which have traditionally constituted the main markets for Latin American exports, weakened.

Moreover, the significant and steady increase in external sales of the region has been accompanied by a gradual and considerable diversification in their structure. An eloquent indicator of this trend has been the growing participation of exports of manufactures and semi-manufactures in Latin America's total sales. Thus, in 1965 this share was only 8.5%, but five years later it had already climbed to 15%, and in 1978—the last year for which figures are available it again increased substantially, reaching nearly 26% of the total value of exports of goods.

The trend towards export diversification is also clearly shown if we observe, first, the evolution of the relative share of the principal export product in the total external sales of each country and, second, the share of non-traditional exports. Thus, whilst the relative weight of the principal export product has declined in the large majority of the economies of the region, there has been an increase in the percentage of total external sales represented by exports of a large number of goods which were

⁴ See GATT, *Press Release*, 10 March 1981, p. 1.

previously sold only on the domestic market or were not even produced locally.

Notable examples of this dual and simultaneous process are found in the exporting experiences of economies as dissimilar as those of Brazil, Chile, the Dominican Republic and Uruguay.

In the first of these countries, coffee in 1970 still represented over 34% of total exports of goods, while in the same year manufactured products constituted less than a quarter. In 1980, on the other hand, the share of coffee had dropped to approximately 12.5% while that of industrial goods had risen to nearly 57%.

At the beginning of the past decade, copper generated three-quarters of Chile's total external sales, whilst the so-called non-traditional exports contributed less than 8%. Ten years later, the relative share of copper had fallen to about 45% whereas the value of non-traditional exports had increased almost 19-fold to over a third of the total value exported.

In 1970, over 70% of the export earnings of the Dominican Republic came from sales of sugar, coffee and cocoa, and the first of those commodities alone brought in nearly half the total value of the country's exports. Sales of non-traditional products, on the other hand, generated only 12% of the value exported. By 1980 the picture had changed radically. Thanks to the inclusion of gold, ferronickel and other products in the export pattern, the relative share of non-traditional exports had risen to over 45% and thus was slightly larger than the combined share of sugar, coffee and cocoa.

Finally, in Uruguay, traditional export products such as meat, wool, leather and linseed oil accounted for nearly 80% of the total value of exports in 1970, with the other exports generating the remaining fifth. A decade later the share of the traditional products had fallen to under 40% and was thus far surpassed by the 60% made up of non-traditional exports.

4. The acceleration and spread of inflation

However, along with advances such as those recorded in the level and compositions of exports, there have been serious setbacks in recent years. One of the gravest of these has

been the intensification and spread of the problem of inflation, whose disturbing consequences for the management of short-term economic policy and negative effects on economic growth, income distribution and even on political stability and social order can certainly not be underestimated.

It is well known that in the course of the past decade inflation became more persistent, intense and hard to handle virtually everywhere in the world. Thus, in the industrialized countries the disconcerting phenomenon of stagflation emerged, which it has not been possible to explain at the theoretical level, much less to deal with successfully at the practical level by economic policy. Naturally, this accentuation of inflationary processes in the central economies and the sharp rises in international fuel prices which occurred in the middle and at the end of the past decade had a decisive effect on the rate of increase of prices in the majority of countries of the region. Thus, continuous and virulent inflationary processes have in recent years become a characteristic feature of the Latin American economic scene.

All this is well known. It is, however, frequently forgotten how different the situation which the region is facing in this regard is at present in comparison with that which prevailed in it only 10 years ago.

Up until the beginning of the past decade high and persistent inflation affected only the economies of the Southern Cone and to a lesser extent, that of Brazil. In the rest of the continent, inflationary processes were either moderate—as in Colombia, Mexico and Peru—or virtually non-existent—as in Venezuela and the majority of the Central American and Caribbean economies. In 1970, for example, 13 countries, or over half of the 22 for which information is available, experienced price rises of under 4.5%, and in five others the price level rose by less than 10%. In fact, in that year only Brazil and the Southern Cone countries had 2-digit inflation, and the maximum increase in prices in the region—which occurred in Chile—was one of 35%. The simple average rate of inflation in Latin America—without considering the three southern countries—was thus barely 4%.

Four years later, the inflationary panorama had changed radically as a result of increased inflation in the industrialized countries and the considerable readjustment of petroleum prices adopted by the OPEC countries at the end of 1973. Thus, in 1974 there was no longer any country in Latin America in which prices rose less than 10%, so that 2-digit inflation became the rule. What is more, in half of the Latin American economies the rate of inflation fluctuated between 15% and 30% whereas in five other countries prices rose by between 30% and 40%. The simple average rate of inflation in Latin America—again excluding the Southern Cone countries, in all of which prices rose with much greater intensity—was 22% that year, or exactly five times as high as the average recorded in 1970.

In the following years the rate of price increases tended to become more moderate but was far from returning to the low levels which had prevailed up to the beginning of the decade. For example, in 1978 the average rate of inflation was 17.5%, which while considerably

lower than that recorded for 1974 was nevertheless nearly four times as high as that for 1970.

But this improvement, in addition to being modest, was transitory. The situation worsened again in 1979 when the inflation rate began to rise again in the central economies and the international price of hydrocarbons in real terms again increased. Thus, during that year and also in 1980 the inflationary panorama was similar to that prevailing in 1974. In fact, last year the rate of inflation was under 10% in only three countries, while in another 11 economies—all of them characterized in the past by the notable stability of their price levels—the rise in consumer prices fluctuated between 14% and 24%. The intensity of the inflationary process was even greater in Colombia, Jamaica, Mexico and Chile, where prices rose by close to 30%, and higher still in Uruguay (43%) and Peru (61%). The highest rates of inflation, however, were recorded in Argentina and Brazil, where consumer prices increased by approximately 90% during the year.

II

Centre periphery relations and the industrialization process in the context of the present situation

The view of the world and regional scene which I have just outlined raises complex questions as regards the future course of the region's development and the most appropriate guidelines for and means of tackling it.

In order to answer these questions we think that it would be useful to take as a guide what have been considered to be the *idées-force* of the CEPAL approach. We shall do so with a view to the questions of today and tomorrow, without pausing for retrospective considerations, on which there is ample documentation.

Whatever our points of view, we believe that they should above all be governed by a large dose of humility. The mayor changes in

development and their uncertain eventual concrete results call for prudence and the rejection of all dogmatic pretensions. However, it would be unpardonable for caution to inhibit us from doing our duty of establishing hypotheses and suggesting guidelines for venturing into the unknown territory glimpsed ahead.

As is generally known, the root of CEPAL's institutional thinking lies in its ideas on the centre-periphery system and industrialization, the latter taken in its broadest sense. The two are closely related, and their reciprocal characteristics and influences are indispensable elements both for an overall appreciation of economic development and for understanding the most decisive question: the degree of social spread of this process.

A. THE CENTRE-PERIPHERY SYSTEM

1. *Basic concepts and relationships*

As regards the first point, it seems obvious that the centre and the periphery continue to exist in the world setup, differentiated by their internal structures and by the nature and consequences of the relations between them.

I have already stressed the changes and progress which have taken place in the structure of production of our countries, and the ways in which they have changed their forms of external relationships. However, it should be recognized that to a considerable extent they continue to take part in the international scheme of division of labour as producers of primary goods, which still account for over 70% of their exports. This has given rise to what has been described as the structural asymmetry of export and import patterns, since a decisive factor in the latter—quantitatively and qualitatively speaking—is constituted by industrial goods, a disassociation which naturally differs manifestly from that observed between the structures of exports and imports in the central economies.

The world trade system thus continues to expose the region to repeated current account disequilibria, erratic behaviour of the supply of and demand for primary exports, the restrictions raised by new and old forms of protectionism in the central economies, and an adverse or inadequate evolution of the terms of trade.

As regards the latter, the increase in the prices for oil—which only benefitted a few of the area's economies—and other commodities at the start of the 1970s led some people to think that a new future of sustained improvement of the terms of trade was opening up, in favour of our main exports. In actual fact, however, this has not come to pass to the extent expected, and the terms of trade have continued to advance and retreat fairly erratically.

On the other hand, no substantial change seems to have occurred in other reflections of Latin America's special links with the central economies. Technological subordination is one of these and the most durable, although in this field, too, progress may be observed, par-

ticularly in the countries in which the diversification of production has made most progress.

The flow of direct investment—which is usually considered to be a primordial mechanism for the spread of technical progress—has continued to be centralized in the industrialized economies, helping to widen the 'productivity gap' arising out of the uneven possibilities of accumulation and innovation of the two universes. In recent years this gap has been called in question owing to the industrial crisis and the decline in the growth rate of productivity in an increasing number of activities in the industrial countries. At all events, between the mid-1960s (1966-1967) and the mid-1970s (1975), accumulated direct investment rose from around US\$ 70 billion to US\$ 186.5 billion in the developed countries, and from US\$ 18.4 to US\$ 37.6 billion in Latin America, of which half was based in Brazil and Mexico.

Despite these manifest facts, it is not superfluous to repeat that they emerge in connexion with a regional economy which has been substantially transformed and strengthened in recent decades. Although this statement is valid to very different extents in the different countries and is subject to various types of reservations, it seems clear that the change covers the majority of countries and the majority of the population of Latin America.

This is decisively due to the structural consequences of the period characterized by what is known as 'inward-directed development', and particularly the progress in industrialization. This factor has also had a direct or indirect impact on achievements involving the diversification of the patterns of external trade, and particularly on the proportion of manufactured or agro-industrial exports.

This phenomenon is one of the primordial reasons for the advantageous position of Latin America in the periphery setup. According to United Nations information, this may be summed up in the fact that its per capita product at the end of the 1970s was close on four times that of the rest of the developing world. However, it is no less significant that the regional level in this regard was slightly less than a fifth of that of the industrialized economies. In other words, although these changes had caused the centre to become less monolithic than in the past and

the developing countries less peripheral, there can be no doubt that the Latin American economies continued to be closer to the periphery than to the centre, although this situation requires further clarification as regards the status of some particular countries or specific social groups.

From another standpoint, I should like to reiterate the opinion I formulated before, that all of this has contributed to a greater defence capacity in the region *vis-à-vis* external events. Despite the significant and generally damaging repercussions of the upsets on the international scene, Latin America has been able to guard itself against them to an extent which certainly has no parallel with the traumatic consequences which these upsets used to inflict in the past.

Briefly, and to sum up, then, although the Latin American economies continue to be part of the periphery in the international division of labour, they are no longer the same —structurally— as in the period of 'outward-directed growth', even as regards their degree of autonomy (or dependency) *vis-à-vis* the exterior.

2. The centre-periphery scheme and the new background for the world dialogue

But it is not only Latin America which has changed in the course of the last decade; the world, too, has changed, and along with it the forms of interaction of the central and peripheral countries. This obliges us to study these changes more closely.

The most important modifications which have taken place include:

- the increasing multi-polarity which has emerged among the centres. This has been aggravated by the progressive dispersal of economic power within the western capitalist world —where leadership has begun to be shared between the United States, the European Community and Japan instead of the clear hegemony of one of these which dominated the postwar period until the end of the 1960s— and by the growing diversification within the socialist sphere;

- the end of the persistent and noteworthy expansionary trend experienced by the industrialized countries following the postwar

period and the start of a period of upsets, uncertainty and transition, originating in structural causes to which I have already referred;

- the drop in the formerly very high growth rate of the centrally-planned economies;

- the growing importance which the peripheral countries have acquired as elements for ensuring the stability and the growth of the international economy as a whole;

- the strengthening of the relations of interdependence among all the countries of the world in a scenario characterized by a growing process of transnationalization.

I should like to lay particular stress in this last-mentioned phenomenon. The fact that this increasing interdependence may be used —and in fact is— by the industrialized countries to disseminate images favourable to the promotion of their own interests should not lead us to ignore the fact that this is a real trend in the contemporary international system. It is a phenomenon which, although representing interdependence between non-equals, has given rise to new forms of relationships not only between the industrially advanced economies but also between these and the peripheral countries.

If we limit ourselves to reviewing the latter group, we have to conclude that as a consequence of these new realities, the forms of these relations have changed as well as the agents responsible for channelling them and the problems they involve.

Firstly, the forms of centre-periphery relations have changed because we have progressed from the type of external linkage which prevailed in the 1950s —which was fundamentally expressed in exports of primary goods, foreign investment in mining, and external aid— to a different system in which a growing number of developing countries, although continuing to be exporters of raw materials, have achieved a significant share in trade in manufactures, have become closely linked to the international financial markets, and are seeking new forms of relations with the transnational corporations and new means of acquiring foreign technology.

The agents of the process have also

changed. In the 1950s the main partners in the dialogue with the governments of the developing countries were the international financial bodies and foreign enterprises, mostly established in basic goods-producing activities. Today, many of these enterprises have been nationalized, and new partners in the dialogue have emerged connected with financial activities and the manufacturing sector.

Lastly, the nature of the problems around which these relations revolve has changed, and the problems which traditionally affected centre-periphery relations are now accompanied —without detracting from their importance— by the problems of energy, protectionism and access to the markets of the industrialized countries, industrial redeployment, the fluidity and predictability of the international financial markets, the capacity for the absorption and adaptation of foreign technology, and the improvement of contract terms with the transnational corporations.

In other words, although the centre-periphery system continues to be valid, particularly as a category of analysis, it must today be applied to an international structure different from that of the past. This requires a reinterpretation of the relations between the two segments of the system, in the light of which the centres will probably present a less monolithic image and some developing countries will occupy a less peripheral position. This phenomenon, which becomes clearer every day, was already anticipated by one of the best-remembered of CEPAL's thinkers, José Medina Echavarría, when, referring to an "obsessive topic of recent years", he raised "the possibility that some day the present system of dependence may become antiquated owing to the fast or slow modification of its nature as unilateral hegemonic dependence", or when he suggested the emergence of "a new form of this dependence as a plurilateral relationship".

We too observe that, under the impact of the transnationalization process, the unidirectional form of external dependence to which we were accustomed has changed and given way to the emergence of multiple power circuits which link developed and developing countries in different ways, depending on the interests or agents operating in each. For

example, there is the oil circuit and the circuit linked with other mineral products of long-run crucial importance, as well as the food, technology and finance circuits. Each of these revolves around different interests, is operated by different agents, and involves different groups of countries with a likewise different relation of forces. All of this has helped to alter centre-periphery relations, and we are today thus faced with a far more complex world whose new dynamics we must understand as a matter of urgency if we wish to strengthen our forms of international insertion.

B. SIGNIFICANCE AND PRIORITY OF INDUSTRIALIZATION

As we said earlier, the level of priority conferred on the industrialization process has constituted another pillar of the CEPAL approach. Before directly examining its role and requirements in the scene before us, some general points should be briefly clarified.

Of course, there can be no denying that what was formerly known as the 'industrialization mystique' has weakened considerably.

No doubt the deterioration of its image in the central economies, burdened by the problems brought on by industrialization, by the obsolescence facing some branches of production, and by the challenges posed by the transition to a 'post-industrial' society has contributed to this.

However, a critical appreciation within the region itself has been added to this reflection of outside experience, with even greater impact. Currents of opposing signs and contrary content converge in this.

For some, the adverse judgements on industrialization are due to the inadequacies or failures as regards the social transmission of its results and the creation of job opportunities, its lack of capacity to structure itself internally and establish firm links of complementarity with the other sectors, and the inability to ensure a development less dependent on different external influences.

For others, however, the list of errors includes, *inter alia*, the high costs of production, the lack of competition and excessive protection, the disdain for comparative advantages,

the exaggerated and inefficient State intervention and the failure to consider external transactions.

CEPAL brings to this discussion an attitude which is both *critical* and *positive* and which, without ignoring—as is evident from the documentation—the relevance of many of these criticisms, subordinates them to the historical significance and *raison d'être* of the industrialization process. All in all, we are convinced that if we can today speak of “a different Latin America” compared with that existing decades ago, this is basically due to the structural changes which have taken place, whose axis has been the unfolding of this process.

1. An integral concept of industrialization

As is well known, in the past CEPAL envisaged an industrialization process which went beyond the sectoral context and had the ‘industrial society’ as its horizon, i.e., a historical type of society—in its broadest sense—conditioned by the dynamics of knowledge and the technical and scientific rationale applied primarily to industrial production, which operated as the primary driving force for its modernization-oriented growth and change.

This dynamic role of industrialization implies considerable alterations in the patterns of organization of the community and the State, in the forms of production and consumption, in the structuring of the social classes and estates, in political activity and institutionalization, in the international position of the countries’ societies, and in the basic social personality of individuals.

In brief—as was expressed in one of the most important documents on the subject prepared by CEPAL—it would not be appropriate to interpret the process from the limited standpoint of the increase in the capacity of production and the growing output of manufactures without placing it in the broader perspective of the social and cultural change with which it must necessarily be associated.⁵

⁵CEPAL United Nations, *The Process of Industrial Development in Latin America*, 1966.

2. Industrialization, technical progress and external trade

The 1949 *Economic Survey of Latin America* maintained that in the former scheme of outward-directed growth, technical progress was concentrated in the sectors aimed at producing low-cost foodstuffs and raw materials for the major industrial centres. However, it was argued, “as this progress spread, the surplus of the active population and the natural growth taking place in it were employed in industrial activities, transport and trade, as a logical consequence of the growth of the markets and the specialization and diversification of production. Within this process, the improvement of agricultural and the evolution of industry were therefore two aspects of the same problem of economic development, and like the development of industry, transport and trade, the development of the services required persons who were not needed in primary production, which in turn could not grow without the correlative development of those other activities”. For all these reasons, as another text of this period observed⁶ “industrialization is the growth form imposed by technical progress in the Latin American countries”.

The dynamic breadth and interlinking of the CEPAL approach and the fundamental basis of the phenomenon are thus made clear.

Associated with the above view, a supplementary argument emerges, introducing the relation between the industrialization process and external relations, in which the circumstances which characterized world trade between the great depression and the start of the 1960s are of undoubted importance.

According to this point of view it is argued that the absolute or relative decline of the impulses from external trade—which had imposed and encouraged ‘outward-directed growth’—should be offset by the mobilization of human and material resources for the supply and subsequent growth of the home market. This is, in short, the proposal known as ‘inward-directed growth’.

⁶See Raúl Prebisch, *Problemas teóricos y prácticos del crecimiento económico* (1951). Series Commemorating the Twenty-fifth Anniversary of CEPAL, 1973.

Although we shall come back to this later, it may be noted that this opinion, far from ignoring the role of external trade, recognized its strategic importance, although its priority and function were no longer the same as in the former system.

Aside from the controversies on these relations and the policies adopted in this respect by different countries, we firmly believe that these two main considerations continue to be valid although the specific situations in which they are stated are very different today and render necessary a creative reformulation of the means of tackling them.

In the light of these ideas, and taking into account the changes which have occurred both in the region and in the rest of the world, what are the capital reasons which justify the central role of the industrialization process in what will probably constitute the scene in the 1980s?

3. *Employment opportunities*

It should come as no surprise that we are opening this schematic analysis by looking at the problems and needs of the chief subject of our concern: the people of Latin America and particularly the large sector which has remained completely or substantially marginated from the results of the development achieved.

For the moment, let us bear in mind that during this decade the region's population will grow by slightly over 100 million persons, to around 455 million in 1990. More than 90% of the new inhabitants will be established in urban nuclei, while only 10 million will be added to the rural contingent. It is estimated that the employed population will increase by 37 million persons, of whom 33 million will correspond to the urban centres.⁷

From a strictly socio-economic point of view these figures raise further unavoidable questions: how are their vital needs to be met? Where will they find jobs which will enable them to produce and have access to the goods and services which are lacking?

In order to approach this subject it should be recalled that towards the end of the last

decade (1977) it was calculated that approximately one-third of all Latin Americans were to be found below the 'poverty line' and a slightly larger percentage was unemployed or employed in exceedingly low-productivity and low-income activities. We should point out, however, that these figures recorded some modest progress compared with the situation at the beginning of the decade, although the absolute volumes of those affected had not changed.⁸

If we concentrate from the start on the decisive question of employment, the research carried out by PREALC provides a panorama of developments in the last three decades (see table 6).

Broadly defined, the industrial sphere (including manufacturing, construction, electricity and transport) employed about 22% of the economically active population in 1950 and 27% in 1980. This involved annual growth rates of 2.7% between 1950 and 1970 and 3.8% between 1970 and 1980. Adding to this the indirect effects on other activities, industrialization affected 35% of the labour force in 1950 and 47% in 1980.⁹ In other words, nearly half of regional employment at the end of last decade was connected with this global process.

These figures are in significant contrast to the rather pessimistic evaluation which has prevailed in this regard, which seems to have been dominated by several main factors.

One is the isolated appraisal of the industrial sector in the strict sense, although even so it increased its share in total employment from 14% to 16% between 1950 and 1980, raised its annual rate of absorption of the labour force from 2.2% between 1950 and 1970 to 3.8% between 1970 and 1980, and in the latter decade offered employment to over 21% of the increase in the economically active population.

This picture is notably altered if the more general and dynamic projection of the process is considered, as we did earlier. However, there is no doubt that the primordial element in the underestimation stems from the fact that it

⁷ See CELADE, *Boletín demográfico*, Vol. XII, No. 23, Santiago, Chile, January 1979.

⁸ CEPAL/UNDP, *¿Se puede superar la pobreza?* (E/CEPAL/G.1139), Santiago, Chile, 1980.

⁹ Only the backward linkages are considered, so as to avoid duplication in the calculations.

Table 6

LATIN AMERICA: ECONOMICALLY ACTIVE POPULATION BY SECTORS OF ACTIVITY, 1950, 1970, 1980

Sectors	Thousands of persons			Percentages			Growth rates		
	1950 ^a	1970	1980	1950	1970	1980	1950-70	1950-80	1970-80
<i>Total</i>	51 969	78 874	103 094	100.0	100.0	100.0	2.1	2.3	2.7
Agriculture	27 982	33 163	36 110	53.8	42.1	35.0	0.9	0.9	0.9
Mining	672	994	1 098	1.3	1.3	1.1	2.0	1.7	1.0
Industry	7 311	11 338	16 523	14.1	14.4	16.0	2.2	2.8	3.8
Construction	1 861	4 244	6 706	3.6	5.4	6.5	4.2	4.4	4.7
Transport	2 009	3 280	4 220	3.9	4.1	4.1	2.5	2.5	2.6
Electricity	155	300	385	0.3	0.4	0.4	3.4	3.1	2.5
Commerce	4 115	7 949	12 285	7.9	10.1	11.9	3.4	3.7	4.5
Services	7 864	17 516	25 767	15.1	22.2	25.0	4.1	4.0	3.9

Source: Preliminary estimates by PREALC on the basis of national population censuses (adjusted) and surveys (adjusted).

Note: The total includes information from 14 countries which account for around 95% of the economically active population of Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

^aIn Peru, Uruguay and Venezuela the data correspond to 1960, since no information is available for 1950.

passes over the capital impact of the growth rates of population, the labour force and the rapid migration towards the urban and metropolitan centres. Each of these elements represents a 'divisor' which notably cuts down the extent and particularly the social appreciation of the progress registered.

Although it is a well-known fact that the evolution of Latin America (except for a very few countries) has been exceptional in all these aspects, they have not always been duly related to the criticisms or dissatisfaction regarding the availability of productive employment or the persistence of urban marginality.

It is therefore useful to consider some primordial facts in this regard.

Firstly, as was observed in a recent document, between 1950 and 1975 the population of Latin America grew more rapidly than that of any other region in the world. In these 25 years it doubled, while the world population increased by slightly under 60% and that of the developed countries by only just over 30%. In addition, the annual rate of growth of the urban population (in cities of more than 20 000 inhabitants) was more than 5%, pushing up its

quota in the total population from 26% to 45% in that period.¹⁰

The contrast of circumstances can be appreciated with greater clarity if the evolution of Latin America is compared with that of the countries of the European Economic Community (EEC) as regards some key variables of the problem in the 1960s, which was a decade of great dynamism and labour immigration in the latter area. As may be seen from table 7, industrial employment in the EEC grew by only 0.5% annually, but even so this rate considerably exceeded the growth of the labour force and may be compared with the rate of increase of the population: 1.2%. In Latin America, however, while employment in industry grew annually by 3.5%, it was accompanied by an increase of 3.1% in the population and 2.9% in the labour force.¹¹

¹⁰CEPAL, *Latin America on the threshold of the 1980s*, op. cit.

¹¹It should be noted that the period 1960-1970 is not specifically considered in table 6 and that the methodology and data used by the two sources (PREALC and ILO) may differ to some extent. At all events, however, the differences are obvious enough to illustrate the situations compared.

Table 7

**LATIN AMERICA AND THE EUROPEAN ECONOMIC COMMUNITY: ANNUAL GROWTH
RATES OF POPULATION AND EMPLOYMENT (1960-1970)**

	Population	Labour force	Industrial employment
Latin America	3.1	2.9	3.5
EEC	1.2	0.2	0.5

Source: ILO, *Yearbook of Labour Statistics*.

These facts, of primordial interest for the matter under consideration, will continue to be of importance in the next few decades—as we have already indicated—despite the small declines anticipated in population and urban growth rates. This aspect should be stressed in order to put the exaggerated or interested expectations which sometimes figure in population control policies in their proper place, although this does not mean denying their great importance and the need for them as long-term guidelines. It should be noted in this regard that this aim is considered today a great deal more objectively than in the past, when contrary prejudices prevailed.

In any case, the above permits it to be confidently reaffirmed that the industrialization process will continue to be decisive for the creation of job opportunities for the population of Latin America.

4. The industrialization process and social development

No less solid, in our opinion, is the argument which associates this phenomenon with the priority that should be given to social development, the satisfaction of the community's vital needs and the eradication of poverty.

In this regard, the concern of governments and of the circles which represent the region's opinion has been included and analysed in United Nations studies which have made possible considerable clarification of the nature of this problem and the existing options for efficiently tackling it within a reasonable period of time.¹²

¹²See in particular CEPAL/UNDP, *¿Se puede superar la pobreza?*, op. cit.

This is not the place for repeating the main lines of the diagnoses and policies put forward. We shall therefore limit ourselves to certain aspects which have a more direct impact on the question under consideration.

In this regard we have maintained for some time that this is a perfectly possible mission, supported by the progress made in the size and structure of production in the region, although obviously there are notorious differences between the situation in the various countries or in specific sectors or groups. At the global level, and from the standpoint of the necessary transfers and reallocation of incomes, for example, elimination of the basic inadequacies in nutrition, health, education and housing would call for the allocation of between 3.5 and 5.5% of the gross regional product to this objective.¹³

It is, however, obvious that even this minimal and apparently feasible requirement involves difficult and conflictive political, institutional and also strictly economic readjustments.

Outstanding among the last-mentioned—which we are now stressing—are the changes in the levels and structure of the system of production which this top-priority objective requires. In brief, not only is a satisfactory growth rate required, but also that this growth should give rise to a preferential increase in goods and services for basic consumption, while at the same time investments should acquire an adequate size and structure to serve this aim and to absorb the available labour.

These readjustments must obviously take account of the differences existing among the countries of the region, on account of their size,

¹³*Ibid.*

the dimensions of their markets, the resources they possess or their potential for finding a place in international markets.

In any case, this 'real' counterpart of the endeavour to alter income distribution directly or indirectly is a cardinal element for this strategy. It is a well-known fact that the failure to consider these two dimensions has been one of the outstanding causes of the frustration (and accompanying outbreaks of inflation) of the merely redistributive or populist policies.

The memory of these phenomena should warn us against the temptation to seek to make the changes which would have to be introduced into the 'real' structures of production of our countries through policies which, from one standpoint or another, upset the delicate balance or counterpoint which should exist between planning and the market. We also ought to be on our guard against attempts to seek these changes through excessive protectionism. It is also necessary to take into account the case of countries which, because of their dimensions or economic structures, are obliged to pursue external strategies aimed at obtaining through international trade part of the consumer goods required to meet the essential needs of their societies. Lastly, I must not forget to refer to the very important role devolving on the agricultural sector in meeting these needs: a topic to which I shall refer in the third part of this report.

5. *Industry as the axis of technological progress*

The priority position of the industrialization process also stands out in sharp relief if consideration is given to its role as the main instrument of technological progress. The importance of this facet of the problem—frequently underestimated—requires more careful consideration.

This reveals one of the substantive roles which the sector plays: that of the basic provider of technical knowledge and, at advanced stages, a demanding consumer of this same knowledge. The degree of interaction between the scientific and technical structure and industrial production in fact constitutes a

revealing measure of the degree of economic development.

These considerations of a general nature give rise to other more specific considerations when the situation of the region is examined. There are analyses which reveal the existence of definite asymmetry in the structure of Latin American industry, particularly in the inadequate development of production equipment. Although this structure varies in the different countries, the observation is to some extent valid for all, and doubtless for the region as a whole.

The description we have applied to industrial activity as the bringer of knowledge applies particularly to the manufacture of production goods. There are numerous reasons for this, but here only two are stressed: firstly, that the manufacture of production equipment requires a more complete mastery of the process to which it is applied than that required for its use; and secondly, that the requirements of quality, accuracy and reliability in capital goods are, generally speaking, greater than those with which consumer products must comply.

Being a producer of equipment or not would thus constitute, although not of course the only one, at least a substantive indicator of the degree of industrial development reached. This indicator includes considerations of a qualitative nature which do not appear in the mere appreciation of the volume of manufacturing output.

Naturally, when the Latin American situation is reviewed on a country-by-country basis, we find very different situations. The countries with the largest markets have achieved their own capital goods industries, which are able to cover large percentages of national requirements in many sectors; however, the medium-sized and small countries generally only engage in incipient activities in this field. This difference between the two groups, together with the nature of the production of equipment as an instrument of technological stimulus, calls for some reference, even if only in passing, to the case of the countries with the smallest markets. Should they renounce all pretensions to the manufacture of their own working tools? We do not think so and see at least three possibilities:

(a) Joint action, through formal integration agreements, to establish a market of a sufficient size. Thorough studies and serious political efforts have been made in this regard. Its feasibility has, however, been called in question, not only in regional but also in subregional terms, at least in the short term. But this alone does not refute the fact that integration continues to be a substantive instrument for the development of countries with limited markets.

(b) A careful use of their own markets, even if limited, in order to bring technological progress to the metal manufactures and machinery industry. It must be borne in mind that producer goods are of different degrees of complexity; for example, the pipes or the sluice-gates of a hydroelectric power station may be manufactured by factories existing in the majority of the medium-sized and small countries with minor additional investment, provided that the project has taken this possibility into account. The implementation of this effort may train the enterprise in question for tackling other manufactures which possibly have greater requirements and permit it to raise the quality of its normal output.

(c) The supply and maintenance of the equipment required for primary production opens up a third field of activities which, apart from dealing with local demand, may lead to specialization which could be projected into international trade.

6. *The false dilemma between openness to the exterior and industrialization*

Lastly, we should stress the crucial relations between the process of industrialization and the ways of giving the Latin American economies a place in the international context. We can thus link this analysis with the earlier outline of the centre-periphery problem.

In this regard—let us be frank—a formerly dominant criterion has reappeared with regard to a hypothetical alternative between one type of growth based on the mobilization of resources for export and another which stresses its orientation towards satisfying the domestic market. This would therefore be a choice between ‘outward-directed’ growth and ‘inward-

directed’ development, or between import substitution and export production.

This is not the moment to review the theory and the circumstances which have inspired this proposition, but we shall emphatically stress that CEPAL’s thinking and its normative derivations have invariably rejected this false dilemma and on the contrary have supported the indispensable complementarity of trade with the exterior and the use of resources for supplying national markets.

This fusion of objectives is essential, in our opinion, on account of two considerations which we shall describe briefly.

One is that the historical and structural conformation of Latin America, registered in its present and prospective coefficients of openness to the exterior, determines that its development will depend *primordially* on the utilization of the majority of its human and material resources in activities directed at the home market.

As is obvious, this general premise is conditioned by the individual realities of each economy, and the relative importance of the ‘outward-directed’ or ‘inward-directed’ destination of the output generated varies according to these. Without omitting other factors of importance, the significance of external trade in the smaller and medium-sized countries has been and will be greater than in the countries with huge present or potential home markets; and conversely, in the latter the role of the domestic market clearly predominates.¹⁴

On the other hand, a growing and sustained relationship with the exterior is vital for maintaining this ‘inward-directed’ development and for satisfying other essential requirements of global growth. We may briefly recall the following top-priority aspects:

(a) The provision of the imported supplementary supplies which it is materially impossible to produce locally or whose production comes up against manifest obstacles (definitive

¹⁴While the percentage of exports in the GDP achieved in 1980 amounted to nearly 8% in the three largest countries, that of groups of medium-sized and small economies reached 15% and 24% respectively. See CEPAL, *Economic Survey of Latin America*, 1978 (United Nations Publication, Sales No. E. 80.II.G. 1), Part Three.

or temporary) arising out of the size of the national markets, the resources available, technological requirements and other well-known factors;

(b) The existence of primary or manufacturing activities basically intended for the foreign market which must also furnish the bulk of the foreign currency to finance the country's imports;

(c) The additional fact that there are activities—mainly industrial—which can only be carried out efficiently if domestic demand is supplemented with external demand in order to reach adequate levels of productivity and costs, apart from also supplementing supplies of foreign exchange.

Viewing this question from the standpoint of the earlier review of the centre-periphery system and the nature and options regarding the international position of the Latin American economies, the capital significance of the process of diversification of production, the axis of which is the industrial complex, is even more obvious.

Thus, to stress only the primordial aspect of our thesis, it seems illusory to imagine a new pattern of external relations—more dynamic, stable and advantageous for national development—without this process of internal changes which is projected towards the exterior and is based on the incentives and supplies resulting from trade with other economies.

This position is empirically supported by the indisputable fact that the vigorous deployment of world trade in the postwar period was mainly due to the transactions in industrial goods, a phenomenon which will continue to be of importance in the future according to the most authorized forecasts.

In short, therefore, the termination or attenuation of the centre-periphery dichotomy is inconceivable without the internal changes which accompany the global phenomenon of industrialization, and without this assisting in achieving and benefitting from a new form of insertion in the world economy.

7. *The lessons of experience*

This real situation and the prospect of the new circumstances, potentials and restrictions

make a creative reformulation of the strategy of the industrialization process and its national variations a necessity. For this reason we must scrutinize their past, and keep a lookout for their future.

It would be vain to attempt this urgent and difficult task here. We can, however, sum up some requirements which will most certainly have to be taken into account in outlining that strategy, and which are closely interrelated. They are also in keeping with the central objectives of the style of development which has been proposed in the organization's conferences, i.e., one which will ensure the dynamic and regular growth of our economies, greater fairness in the social distribution of their benefits, and a satisfactory level of autonomy *vis-à-vis* outside influences.

The following would be the requisites which we consider to be of top priority for a new cycle of Latin American industrialization:

(a) To ensure the progress and greater selectivity of this process, in contrast with the extensive or indiscriminate spread of earlier efforts. A more in-depth approach to this process implies the search for greater complementarity of the industrial spectrum itself and of industry with the other sectors of production;

(b) To intensify and rationalize the absorption, adjustment and creation of technological progress, giving preference to the activities—such as the manufacture of machinery and equipment—which constitute their centres of learning and diffusion, and to the scientific base of research and development which generates or assimilates it;

(c) To increase substantially the priority assigned to the branches intended to satisfy the essential needs of the population and thus take account of all the elements which may help to raise the level of employment and productivity and the income of the labour force;

(d) to make a prior and realistic evaluation of the crucial links between the industrialization process and the external sector, admitting that the neglect of this in the past constituted the most vulnerable aspect of its continuity and solidity. We must therefore repeat that the dynamics of growth and of industrialization itself require a sustained increase in foreign trade and that this trade in turn will depend to a

decisive extent on the contribution of this process;

(e) To take explicitly into account in the general policy and in the specific initiatives their decisive effect on the environment, urban or metropolitan concentration and spatial disequilibria. This concern, obviously neglected in the past, has acquired singular importance in the present circumstances.

(f) To clarify the guiding norms as regards the ever-controversial question of protectionism or the liberalization of external transactions. The excessive distortions introduced by the use of protectionism long after the events which prompted it in the past have been thoroughly diagnosed. But it is no less obvious that the experiences of radical liberalization also clearly reveal the disadvantages they bring with them. It is therefore necessary to obviate these fluctuations and define both the general criteria and the criteria for specific situations. They should combine the indispensable safeguards for the national economies —justified by the structure and level of their development— with measures aimed at making the most of the benefits and stimuli of a different and carefully studied international division of labour.

Lastly, let us reiterate our long-standing conviction that progress in this process cannot be subordinated—as is sometimes suggested—to another mistaken alternative: that which contrasts the outright pre-eminence of market mechanisms, on the one hand, with the overwhelming omnipresence of the State or of public control on the other.

It is not possible to dwell here on this controversial and topical debate. We shall merely reproduce the essence of what was maintained long ago (in 1961) in that connexion and still remains applicable:

“...reference has been made to the need for conscious and deliberate action to influence the market forces [in other words, in today's terms, to influence the market] and orient them towards attaining certain economic and social goals... However, care should be taken not to draw erroneous conclusions from that argument. The aim is not to suppress the forces in

question—which have enormous growth potential—but to establish through State action the conditions that are essential for ensuring that such potential can be exploited in the interests of economic development.”¹⁵

The specific results of this enunciation of principles—which goes beyond and incorporates the terms of that misleading dilemma—is to be found, as is well known, in our persevering sponsorship of effective planning methods capable of dealing in a rational manner with the various problems outlined earlier.

Despite all the vicissitudes and the constraints affecting Latin American efforts in that connexion, it could hardly be denied that considerable progress has been made in this way, both in the institutional sphere and in that of specific achievements and with regard to the establishment of an extensive and competent corps of technical experts.

We do not claim that these views are new. In fact, they stem from concerns that have always been present in CEPAL's analyses, as can be readily demonstrated. However, it would seem that the time has come to expand on these ideas and to revise them in the light of the changing scenarios and prospects we have before us.

At the same time, we believe that the weight of circumstances and the tasks we have ahead of us have overtaken purely academic or ideological debate on the matter. It will therefore suffice to bear in mind, as an outstanding example, the reality of the energy challenge and of policies for dealing with that challenge—to which I shall return at a later point. Everywhere these realities are making it necessary to adopt an express definition of appropriate ways and means for the short, medium and long term—in other words, to engage in planning. In this process the guiding and executive presence of the State, in conjunction with the market forces and private, national and foreign enterprise, is of great importance.

¹⁵CEPAL, *Desarrollo económico, planeamiento y cooperación internacional*, Series Commemorating the Twenty-fifth Anniversary of CEPAL, Santiago, Chile, 1973.

III

Strategic problems of the new decade

Basically, the changes that are taking place in the world economy have been generated by the trends recorded in the developed economies and by the policies adopted by the OPEC countries. Their impact on the majority of the countries of the periphery has been particularly strong and immediate, owing to the fact that the international economy has become more interdependent; in other words, the trends generated in the more dynamic segments of the system contain mechanisms that act as powerful pulleys transmitting the phenomena in question to the rest of the system.

Among these transmission mechanisms are: inflation in the central countries, which spreads to the periphery through the increase in the prices of capital goods and manufactures, thus reinforcing the inflationary factors already operating there; the recession in the industrialized countries and the resulting reduction in their imports, which are factors that have helped to weaken the trend towards the expansion of international trade recorded prior to 1974, which had become a powerful motor for growth for the developing countries; protectionism, with which the industrialized countries respond when confronted with the recessive trends in question, in order to defend not only their agricultural production but also a growing number of industrial branches, thus limiting the exports by countries on the periphery; the increase in the price of oil, consumption of which the countries of the periphery cannot reduce or substitute in the short term without threatening their economic growth rates, owing precisely to the stages that their development processes have reached; and, lastly, adoption by the periphery of development styles which are fashioned after those of the industrialized centres and which reinforce energy requirements and other inflexible factors that affect their economic and social processes.

Within this context, I should like to place particular emphasis on four areas of concern for the countries of the periphery at the beginning

of this new decade, namely, international trade, international financing, the energy transition, and security with regard to food supplies.

1. *International trade*

With regard to the first of these areas, it should be reiterated that maintenance of, or an increase in, the rate of expansion of the exports of the countries of the periphery is a basic requirement for enabling those countries to attain a satisfactory rate of growth. In the case of Latin America, which maintained a relatively high rate of expansion of its trade in the midst of a highly recessive international situation, this is not a utopian proposition. Of course, the dynamism of the external sector depends, on the one hand, on generation of an ever greater and more diversified flow of exportable products and, on the other hand, on the possibility of having increasing access to international markets. The first of these requirements is linked to the strengthening and expansion of the production structure of the Latin American countries and, more particularly, to the industrialization process: elements to which I have already referred. With regard to access to international markets, this depends basically on the rate of expansion of world trade and the degree of success achieved in the struggle against protectionism, which has made a forceful reappearance in the industrialized countries in recent years.

Unfortunately, the prospects that can be glimpsed on these two fronts at the beginning of the 1980s are not at all promising. It is estimated that in the three-year period 1980-1982 growth in world trade will be little over 4% per annum, compared with a rate of just under 6% during the 1970s and one of approximately 8% in the 1960s.

The Secretariat has been clear and consistent in its efforts to denounce the enormous damage that the protectionism of the centres is causing, not only by slowing the growth of the

countries of the periphery, but also, and especially, by deferring the adjustment and the recovery of the international economy as a whole—with respect to which the growth of the countries of the periphery revealed itself to be a dynamic factor of the greatest importance during the prolonged period of recession that started at the beginning of the past decade. The Secretariat has also consistently stressed the more systematic, insidious and selective nature that the protectionist phenomenon has taken on as—in addition to tariff measures that discriminate against the periphery's exportable products a set of non-tariff measures, such as quotas, countervailing duties, 'voluntary' restrictions and so-called market organization agreements have been adopted, with the same aim of restricting our countries' exports and with even more effective results.

It would, however, be wrong to misinterpret the long-term importance of the resurgence of protectionism in the centres. Until only 15 years or so ago the periphery's concerns were focused on its so-called inability to participate to any significant extent in trade in manufactures—which was the dynamic element in international trade—and its bargaining power was concentrated on obtaining preferential treatment that would enable it to gain access for such goods to the markets of the industrialized countries. The reappearance of protectionism in the latter countries is partly a reaction to the considerable increase in the competitiveness of a growing number of developing countries in the lines of business in question, and partly a manifestation of the crisis through which the industrialized countries are passing. By continuing with protectionism, these countries are only restricting the role that the developing countries could play as a dynamic element of the international system, and they are, at the same time, deferring the adaptation and modernization of their own economies.

Finally, I could not omit a reference to the new circumstances that tend to reinforce one of the theses and proposals most identified with CEPAL thinking; those which stress the importance of regional integration.

Despite its vicissitudes, this objective has lost none of its fundamental *raison d'être*: on

the contrary, it seems to have been reinforced. As a recent report of the Inter-American Development Bank maintains, in the emerging international context "the importance of the integration process for developing countries must be emphasized, not only because it would stimulate their economies by means of reciprocal trade, but also because it would lead them to operate on a larger scale and would improve their economic efficiency".

Evaluating the probable adverse repercussions of the stagnation of the central economies on world trade and the growth of the periphery, Professor A. Lewis (in the address he gave on receiving the Nobel Prize in Economics) stressed the tremendous importance of this path today. After observing that the developing countries possess an important instrument for tackling this problem by boosting trade among them, he stressed the opportunities which have lately opened up in this regard, and the formal and informal means of causing them to materialize. One of his basic opinions merits thought: "If a sufficient number of LDCs reach self-sustaining growth, we are into a new world. For this will mean that instead of trade determining the rate of growth of LDC production, it will be the growth of LDC production that determines LDC trade, and it will be internal forces that will determine the rate of growth of their production".

2. External financing

Two basic facts have characterized Latin America's process of external indebtedness during the past decade. The first was its extremely rapid growth; the second, the radical change in the sources of external credit. These changes have had both positive and negative effects on the region's development. However, before considering the advantages and drawbacks of such changes, it would be appropriate to recall the basic dimensions of this simultaneous process of quantitative expansion of, and qualitative change in, the external debt.

(a) *The expansion of the external debt*

In 1970 the public and officially guaranteed medium and long-term external debt of

Latin America was US\$ 16 billion. Ten years later it had increased almost eightfold and was estimated to be approximately US\$ 125 billion. However, despite its extraordinary size this rise does not fully reflect the increase in Latin America's overall indebtedness abroad. In view of the fact that, particularly in the second half of the past decade, the forms of external credit that expanded the most rapidly were loans granted without official guarantees by private international banks, the region's total external debt is currently much higher than the officially guaranteed debt. In fact, at the end of 1980 it was estimated that the former amounted to approximately US\$ 195 billion. In other words, between 1974—the first year for which there is reliable information on non-guaranteed bank credits—and 1980, Latin America's total gross external debt increased more than threefold, whilst in net terms it rose fourfold (see table 8).

Naturally, this exceptional rise in the nominal level of indebtedness partly reflected the effects of world inflation. That increase should, moreover, also be considered in the light of the relatively rapid growth in the region's total product and the considerable increase in the value of its exports of goods and services which occurred at the same time.

However, even if these factors are taken into account, the increase in debt during the past decade was considerable. Thus, for example, if both the officially guaranteed external debt and the national product are considered in real terms, it may be seen that, after rising from 11% in 1960 to almost 14% in 1970, the ratio between the two rose to almost 28% in 1978. The ratio between the servicing of officially guaranteed external debt and the total value of exports of goods and services followed a similar trend. Thus, between the early 1960s and the mid-1970s, amortization and interest payments consistently absorbed approximately 13.5% of the value of exports; however, subsequently that ratio rose sharply, and in 1978 debt servicing already amounted to 26% of the total value of the goods and services exported.

Whatever the indicator used, then, the conclusion that emerges is the same: during the past decade, and particularly in its second half, the Latin American external debt grew at an exceptionally high and steady rate.

(b) *Changes in the sources of external financing*

As already noted, this unprecedented expansion of the external debt was accompanied by

Table 8

LATIN AMERICA: OVERALL EXTERNAL DEBT^a
(Billions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980 ^b
Public and officially guaranteed external debt	16.1	18.3	21.5	27.4	36.6	44.6	57.9	72.5	94.5	111.3	125.0
Non-guaranteed bank debt	—	—	—	—	18.8	25.2	32.6	34.6	39.4	54.3	70.0
Overall gross debt ^c	—	—	—	—	55.9	70.7	92.4	109.0	135.3	167.2	195.0
Gross international reserves ^d	4.3	5.2	8.6	13.0	17.0	17.4	22.4	26.9	33.8	40.8	39.0
Net overall debt	—	—	—	—	38.9	53.3	70.0	82.7	101.5	126.4	156.0

Source: World Bank, *World Debt Tables*, 15 November 1980; Bank for International Settlements, *Annual Report*, June 1980; International Monetary Fund, *International Financial Statistics*, April 1981, and CEPAL estimates.

^aOutstanding debt effectively disbursed.

^bPreliminary estimates subject to revision.

^cIncluding debt with IMF.

^dExcluding gold.

considerable changes in its sources and modalities. Basically, the changes in question were due to the extraordinarily rapid increase in private loans in the past decade, whose growth rate far exceeded that of official credits. Thus, whereas during the period 1960-1970 loans from private sources accounted for an average of only one-third of Latin American external financing, in 1979 they accounted for three-quarters of such financing.

In turn, the chief cause of this sharp rise in the relative share of financing from private sources was the abrupt expansion of loans granted by the international commercial banks, whose importance early in the 1970s, in contrast, was extremely limited. During the five-year period 1966-1970 net financing from such institutions barely amounted to US\$ 300 million annually, an amount equivalent to only one-third of the value of loans granted by of-

ficial bodies and less than half of the value of direct foreign investment during those years. In 1979, however, the relative share of these three components of external financing had changed dramatically. In that year credits provided by the international commercial banks rose to US\$ 17 billion, that is to say, they were six times larger than both the amount of financing from official sources and that from direct investment (see table 9).

(c) *Oil surpluses, recycling and indebtedness*

Naturally, changes as far-reaching as those that have occurred over the past ten years in the amount, composition and terms of Latin America's external debt are not to be explained only by factors relating to the region's internal development, but must also be considered in the light of the profound transformations that have

Table 9

NON-OIL-EXPORTING LATIN AMERICAN COUNTRIES^a:
EXTERNAL FINANCING
(Billions of dollars)

	Annual average		1977	1978	1979
	1966-1970	1974-1976			
I. <i>Use made of external financing (1+2)</i>	2.4	14.3	11.8	18.1	24.0
1. Current account deficit ^b	-2.0	-13.6	-7.9	-10.5	-18.0
2. Changes in reserves	0.4	0.7	3.9	7.6	6.0
II. <i>External financing (3+4+5)</i>	2.5	13.6	12.7	16.3	24.4
3. Direct investment	0.7	2.1	2.3	3.0	3.0
4. Donations	0.1	0.1	0.2	0.2	0.2
5. Nets loans ^c	1.7	11.4	10.2	13.1	21.2
(a) Loans from official sources	0.9	2.0	2.2	2.9	3.0
Multilateral	0.4	0.9	1.2	1.5	1.5
Bilateral	0.5	1.1	1.0	1.4	1.5
(b) Loans from private sources	0.8	9.5	8.0	10.2	18.2
Suppliers	0.4	0.5	1.2	2.2	2.0
Commercial banks	0.3	8.0	4.7	5.8	17.0
Bonds	-	0.3	2.0	2.2	2.0
Unallocated balances	0.1	0.7	0.1	-	-2.9

Source: International Monetary Fund, *Balance of Payments Yearbook*; World Bank, *World Debt Tables*, November 1980; Bank for International Settlements, *Annual Report*, June 1979 and *Supplements*, and CEPAL estimates.

^aIncluding Mexico and Peru.

^bExcluding official donations.

^cIncluding long, medium and short-term compensatory and non-compensatory loans.

taken place at the same time on the international economic scene.

When looking at the situation from this point of view, it is necessary first of all to recall two well-known but fundamental facts. The first of these is that the rapid and massive increase that took place in Latin America's external debt during the past decade was both a cause and a consequence of the high current account deficits recorded simultaneously in the region's balance of payments.

The second fact is that these negative balances—which reached a total of US\$ 122 billion in the period 1970-1980—were particularly from 1974 onwards, the counterpart of a proportion of the financial surpluses accumulated during that period by a number of the chief petroleum-exporting countries. Since these countries, on the one hand, had at their disposal abundant financial resources from their sales of hydrocarbons and, on the other hand, were not in a position to use these resources entirely within their own countries, owing both to structural factors and to circumstances relating to current economic conditions, they deposited a high proportion of their surpluses with private international banks and financial institutions. In turn, these banks and institutions found that their opportunities to expand their credits significantly in the industrialized countries were restricted, initially owing to the recession that those countries entered in the middle of the 1970s and subsequently owing to their slow and uneven recovery.

In these circumstances it was naturally attractive for the international commercial banks to channel a high proportion of their new and much more abundant financial resources to the relatively more advanced economies of the Third World, among them a good number of Latin American economies.

In turn, the presence of this ready supply of funds from the international commercial banks coincided with the need for most Latin American economies rapidly to secure a greater volume of external resources in order to be able to meet the increased cost of their imports caused by the considerable rises in the international price of petroleum and by the acceleration of inflation in the industrialized countries.

Thus, the chief—although certainly not the only—cause of the exceptional growth of, and the market change in the composition of, Latin America's overall external debt was the unusual set of circumstances prevailing on the world economic scene throughout the past decade, and particularly following the first major rise in the international price of hydrocarbons. On the one hand, these circumstances multiplied many times the financial surpluses of the petroleum-exporting countries, and on the other hand they also considerably increased the requirements for external resources of the majority of the Latin American economies. These circumstances also increased the funds at the disposal of the international commercial banks, which could thus play the role of financial intermediary that was indispensable for transferring the surpluses accumulated by the petroleum economies to countries whose current account deficits had risen sharply as a result of the impact of the deterioration in their terms of trade and the stagflation prevailing in the industrialized countries.

(d) *Advantages and limitations of the new external indebtedness*

As pointed out at the beginning, the considerable increase in Latin America's external debt over the past ten years brought both benefits and constraints for Latin American development.

Among the benefits, it is necessary to stress, firstly, the obvious fact that it was basically with the aid of the new, large-scale credits that the region could finance its high balance-of-payments current account deficits during the period in question. To put it another way, higher indebtedness was the chief mechanism for effecting the transfer of external savings called for, by definition, by any current account deficit.

The ready availability of credit from the private international banks was of particularly decisive importance in the petroleum-importing Latin American countries. In fact, when they were faced with a sharp increase in the cost of their imports owing to the rise in the international price of hydrocarbons and the acceleration of inflationary processes in the

industrialized countries, many such Latin American countries managed, by taking out new loans, to carry out more gradually the inevitable and difficult adjustment called for by the sharp deterioration in their terms of trade.

Moreover, it must also be recognized that, at least until the middle of the past decade, the actual cost of the new debt was lower, since the nominal rates of interest charged did not adequately anticipate the increase in the rate of international inflation.

Lastly, attention should be drawn to two favourable characteristics that were general features of financing from private sources.

The first such characteristic was the rapidity with which the financing in question could be obtained: a particularly important feature in view of the pressing requirements resulting from the sharp changes that occurred in the world economy, and in marked contrast to the long periods of time that were often required in order to obtain approval and payment of loans granted by official financing bodies.

The second advantage of financing through private banks was its flexibility. Unlike credits granted by suppliers or by a number of governmental financing agencies, loans provided by the international commercial banks had 'no strings attached' and did not set restrictions with regard to the markets where they might be used. This flexibility was also apparent in the fact that such banks exercised virtually no control over the manner and sectors in which the borrowers spent the funds obtained. In particular—barring exceptional cases—governments (which were often the recipients of such loans) could conduct their economic policy independently, without having to submit decisive aspects of such policy for prior approval or periodic monitoring by the bodies supplying the funds.

However, the steady growth in external debt and the increasingly larger share of such debt accounted for by credits from international commercial banks also entailed elements that were unfavourable to the region's development.

Thus, such financing was obtained at interest rates considerably higher than those

charged by official bilateral or multilateral credit agencies, and this ultimately raised the real cost of the debt. This cost also rose as the practice of setting a variable interest rate that was adjusted twice-yearly to take into account fluctuations in the LIBOR rate became more widespread in financial operations carried out by private international banks. Since, as the experience of the past year showed clearly, fluctuations in the rate can reach very high levels, and since the new rates apply not only to new credits but also to loans taken out in the past, the practice in question gives rise to a considerable element of uncertainty with regard to the level that debt servicing may reach in a given period. Moreover, as the base rate progressively accurately incorporates anticipated inflation, the possibility of the real interest rates charged on loans falling to very low levels, or even becoming negative, becomes less likely.

A third adverse effect of the growing relative importance of private bank loans within overall external financing has been the reduction in the average length of time for repayment. The imbalance between the periods of time required for adequate financing of development programmes and investment projects—which often have long gestation periods—and the rather shorter periods of time that are characteristic of most loans granted by the international commercial banks has thus become more pronounced. This discrepancy has, in turn, led to the need for constant rescheduling of loans already obtained, while the reduction of the average periods of time for repayment of debts has resulted in an additional debt-servicing burden.

Lastly, the predominance of private sources of credit in the region's external financing is disadvantageous in that it encourages use of criteria that are focused on private profitability, rather than social criteria, for the utilization of funds. As is well known, these two types of criteria can diverge considerably, particularly in countries that are endeavouring to implement new development strategies aimed at benefitting the poorer social sectors previously marginalized from traditional economic growth.

(e) *The need to seek new forms of international financing*

The foregoing makes clear how urgent it is to seek new forms of international financing that make it possible to overcome, or at least to reduce, the current disadvantages of such financing.

As we have already seen, following the first wave of increases in oil prices the international banking system carried out the process of recycling financial surpluses from the petroleum countries to the deficit countries fairly effectively. However, in view of the increase in the imbalances in the developing countries' external accounts and the steady and rapid increase in their external debt, it is reasonable to ask how likely it is that the institutions that make up the system in question will continue to play the role they have fulfilled so far.

From certain points of view the prospects do not look particularly bad. On average, the private international banks' capital ratios do not appear to be imposing serious constraints on their loan operations, and the distribution of such operations between the industrialized countries and the developing countries will continue to depend on the relative profitability of granting loans to one or the other category of countries. Moreover, the volume of loans granted to the non-oil-exporting developing countries, as a proportion of the banks' gross assets held abroad, has remained at approximately 17% throughout the past decade. Lastly, in 1979 the outstanding bank debt of this group of countries (around US\$ 190 billion) represented only 4% to 5% of the banks' total assets.

However, the current system is not free of problems. On the one hand, a number of banks may be reaching certain technical limits in their relations with some countries. On the other hand, the level of the credits could exceed the debt-servicing capacity of a number of developing countries. Doubts—that should be given due consideration—are also often voiced with regard to the more or less effective use and final destination of the credits and their possible contribution to the promotion of ex-

cessive consumption instead of strengthening the investment process.

In our view, tackling these problems will call for both a co-ordinated set of domestic macroeconomic policies and external financing facilities that are in keeping with the dimensions of the problem that the developing countries must face. It should be pointed out, in this connexion, that a reduction in commercial financing is not the most appropriate way of solving the problems just mentioned either from the point of view of the borrowing countries—whose development programmes can be seriously affected by such measures—or from the point of view of the economies of the industrialized countries—which would be faced with a reduction in the dynamism of markets in the developing countries. Hence the urgent need to seek a more stable framework for the transactions in question and, above all, to strengthen the role of public international financial institutions, particularly the International Monetary Fund, the World Bank and the regional banks.

It is a question of giving these institutions a more active role in the recycling of funds so that they may supplement the role played by the commercial banks. The scale of the deficit countries' financial requirements is such that, if effective adjustment policies are to be proposed, the international financial agencies will have to be in a position to provide a considerably greater volume of resources than they have supplied in the past. They will also have to adapt the terms of their financing to the longer periods of adjustment required by the deficit countries. Furthermore, these processes of adjustment cannot depend exclusively on the implementation of monetary and financial policies; they must be aimed at increasing the supply of resources and at further expanding the deficit countries' production base, and they must form part of a longer-term strategy designed to promote domestic saving, investment and growth.

Of course, if the agencies in question are to step up their resources considerably, they will not only have to obtain a greater volume of loans from the governments of countries with surpluses or on the international financial markets; they will also have to devise new in-

stitutional machinery to facilitate their preparation in the process of recycling the oil surpluses.

3. *The energy transition*

The third of these major long-term concerns of the countries of the periphery is energy. We have pointed out on various occasions that the type of energy that mankind has chosen to use in recent decades has largely determined the development style of all the countries of the world. We have also pointed out that the so-called 'energy crisis' prevailing since 1973 is not a transitory phenomenon, but a process that, on the one hand, marks the end of a stage in which growth was based on a high level of consumption of plentiful and cheap energy, especially petroleum, and, on the other hand, the beginning of a new era in which economic growth will be determined by the dual necessity of reviewing the development styles that have prevailed until now, with a view to reducing energy consumption, and promoting development of new energy resources.

It is important to consider this situation in all its dimensions, and not only in terms of its impact on the balance of payments of the petroleum-importing countries. Thus, firstly, we are facing a *technical problem*, since in the long term the crisis raises the problem of deciding what technological options mankind has in dealing with the possible exhaustion of a source of energy that has until now been of fundamental importance in the energy balance. Secondly, we are facing an *economic problem*, because the viability of these technological options will depend on the cost of the alternative sources of energy, and because, in general, the cost of new sources of energy that could be used in the future will be much higher than that of the traditional sources of energy upon which mankind has based its development in the course of recent decades. Lastly, we are facing a *political problem*, since underlying the crisis is the fact that for the first time the developing world has organized itself in order to obtain the upgrading of the value of one of its basic resources, determining that, also for the first time, North-South relations shall be considered in terms of interdependence, rather than dependence.

However, of the many aspects of the energy crisis, perhaps the most important is the uncertainty that this situation has created at the international level. If this uncertainty is to be reduced, an effort must be made to define those elements of the problem that are relatively foreseeable.

To start with the production of hydrocarbons is approaching limits that could mean that by the end of this century we shall be confronted with serious imbalances in supply and demand, with the danger of recurring periods of oil scarcity and growing vulnerability of the international system with regard to the emergence of possible conflicts.

Secondly, throughout this period oil prices will continue to rise until they reach levels at which it would be profitable to exploit alternative and currently more costly sources of energy.

Thirdly, the phenomenon in question will continue to have a major financial impact. On the one hand, the increase in energy prices will continue to be a heavy financial burden for consumer countries. On the other hand, to the extent that energy prices rise faster than world inflation, the financial surpluses of the petroleum-exporting countries will continue to be an everyday phenomenon. Both situations mean that the international financial markets will, in general, maintain the volumes and levels of dynamism they reached in the past decade and that the challenge of facilitating redistribution of the surpluses in question will remain.

Fourthly, higher energy prices will give rise to conservationist policies, which will, however, not solve the fundamental problems and whose results can only be assessed in the long term. Moreover, the margins within which the developing countries can reduce their energy consumption without jeopardizing their economic growth are much narrower than the margins affecting the industrialized world.

Fifthly, the need to put into production hydrocarbon deposits for which extraction costs are higher than for those that have been exploited so far and to incorporate alternative sources of energy will call for extraordinary growth in the investments allocated to the development of this type of resources. The

investment required in order to incorporate the new technologies associated with such alternative sources of energy will also be considerable.

Of course, these challenges will be a much harder blow to the oil-consuming developing countries, which have only a limited ability to increase their external revenue by expanding their export trade and whose consumption of energy per unit of the product, as already pointed out, is much more inelastic than in the case of the industrialized countries, owing, precisely, to the stages reached in their respective development processes.

It is appropriate to recall, in this connexion, that the value of the oil imported by the countries of the periphery increased almost tenfold between 1970 and 1980, rising from a little over US\$ 5 billion to approximately US\$ 50 billion, and it is expected that the value of such imports will more than double again, in real terms, by the end of the current decade. Furthermore, these countries will have to allocate a growing proportion of their investment to the energy sector, with a view to reducing their dependence on imported energy. On average, between 1966 and 1975 these countries invested approximately US\$ 12 billion per year (in 1980 dollars) in energy production and transformation, a figure that represents approximately 5% of their total investment. However, it is estimated that in the periods 1981-1985 and 1986-1990 these averages will reach US\$ 54 billion and US\$ 82 billion, respectively. This will oblige the countries in question to revise their short and long-term investment plans, both in order to meet the greater cost of importing energy each year and in order to undertake the investment relating to the expansion of their domestic production of energy.

The need to reconcile the allocation of a greater volume of financial resources to this sector and the implementation of policies to rationalize energy consumption with the task of achieving an acceptable rate of development faces these countries with tricky problems in the field of economic policy. Reconciling these conflicting factors will also depend, and to a very fundamental extent, on attitudes adopted in the sphere of international co-operation.

All these questions are of great relevance

in Latin America. Although the region's energy consumption is no more than 4% of world consumption, its economic growth is closely linked with increasing energy availability, since energy use is concentrated in the productive sectors and not in the area of private consumption, which means that there is little possibility of reducing consumption without jeopardizing economic activity. Moreover, unlike other regions of the world, replacement of conventional sources of energy has been limited in Latin America, where petroleum still accounts for 70% of total energy consumption, compared with 45% in the rest of the world. Furthermore, in most of the countries of the region consumption of petroleum has increased more rapidly than that of other sources of energy. Finally, for the oil-deficit Latin American countries oil imports represent a heavy financial burden, equivalent to 3% of their GDP and 26% of the total volume of imports of goods.

Looking into the future, it may be expected that petroleum will continue to be the predominant source of energy for Latin America, despite the fact that proven oil reserves represent no more than 16% of the region's total energy reserves and are heavily concentrated in two countries—which means that it is necessary considerably to step up efforts relating to exploration for new deposits. In many countries of the region the potential for hydroelectric power is greater than that of the oil reserves, but exploitation of this abundant renewable resource has as yet been very limited. The size of the coal reserves has not been determined with exactitude, but they are estimated as being more than three times the size of the total oil reserves, although their utilization would call for technologies permitting use of the low-energy-content coal existing in the region and, at the same time, minimizing the environmental impact of this fuel. Latin America has other potentially important energy resources, including uranium, heavy oils and bituminous shales and, in particular, the potential to be derived from biomass, which in some countries is expected to make a considerable contribution to the region's energy supply in the future.

Development of these possibilities will

call for substantial investment. The total investment in petroleum, natural gas, coal, alcohol and electricity that the region will have to make in the period 1980-1990 has been estimated at between US\$ 240 billion and US\$ 280 billion, depending on the hypothesis selected for the economic growth rate. These figures represent an average volume of annual investment of between US\$ 22 billion and US\$ 26 billion in the course of the period in question, of which over half would represent expenditure in foreign currency.

This investment effort calls for very large amounts of external resources, in addition to the heavy payments for oil imports anticipated for the current decade. It should be taken into account that by about 1990 such payments will represent between 6% and 7% of the GDP of the oil-importing Latin American countries, compared with 3% at the end of the past decade, even if regional energy production expands rapidly. Any reduction in the planned levels of investment for this sector would give rise to an appreciable increase in oil imports, with the resulting impact on the balance of payments of the importing countries, while at the same time limiting their opportunities for economic growth.

This complex panorama lends a disquieting note to the question as to what is to be done. We believe that the answer to that question lies in a combination of efforts at the national, regional and international levels.

It emerges clearly from the considerations already mentioned that it is necessary for the countries of the region to continue to improve the policies tried out in recent years with a view to dealing with the various aspects of the energy crisis. Firstly, with regard to their immediate external payments problems; secondly, as regards the introduction of strict policies to rationalize energy use; thirdly, in the development of energy resources, with emphasis on the incorporation of alternative sources of energy, and fourthly in the forecasting of requirements that will have to be met and changes that will have to be made in national investment plans in order to tackle the objectives in question.

Moreover, when considering these policies it is necessary to bear in mind the funda-

mental disparities to be observed in Latin America as regards the impact that the energy crisis has from country to country. These same disparities give rise to the need to start energetic regional co-operation programmes in this field. The report submitted by the CEPAL Secretariat at the current session suggests a number of courses of action in this connexion.¹⁶ Among these courses are: the possibility of domestic enterprises pooling their efforts to conduct operations relating to prospection for, and exploitation of, new sources of hydrocarbons; harmonization of the external negotiating policies of the national petroleum companies with a view to increasing their weight in relation to third companies, including the possibility of conducting joint action in the field of fuel transport; and pooling of financial and technical resources for the construction of modern refineries.

When these types of measures are being considered, regional co-operation in the field of oil supplies should not be relegated to a position of secondary importance; the programme initiated with the participation of Mexico and Venezuela to facilitate the provision of hydrocarbons to the Central American and Caribbean countries is both an example and a promising precedent in the field in question.

Development of alternative sources of energy requiring the use of new technological experience is another favourable field in which regional co-operation programmes could be organized. The prospects for this are reinforced by the fact that considerable progress has been made in laying the technical, political and legal foundations for the development of co-operation programmes within the framework of the Latin American Energy Organization (OLADE), with direct participation on the part of the governments concerned.

However, the magnitude of the challenges raised by the energy problem and the extent to which solution of these problems calls for co-operation between producing and consuming countries—both developed and developing—make it necessary also to look for these solu-

¹⁶See *Latin American development in the 1980s*, E/CEPAL/G. 1150, February 1981 (mimeographed).

tions through international co-operation. Implementation of energy conservation policies on the part of the industrialized countries would enable the Third World countries to incorporate more rational styles of energy consumption into their development processes; such policies would, moreover, make it possible to save time and facilitate the transition to a new era based on the use of other sources of energy. With regard to the world supply of such resources, it is in the common interest of mankind that the vast unexploited potential that the developing countries have in this field, both as regards conventional sources and as regards new and renewable sources of energy, should gradually be used. The fact that there is a powerful shared interest in the field of energy provides a sound and promising basis for international co-operation. If this hope is to materialize, it is above all necessary to understand that lack of agreement in this field will lead to economic chaos and, what is even worse, most probably to political conflict. Secondly, the very existence of this shared interest should induce the international community to accept the developing countries' argument that it is not possible to conduct negotiations on the question of energy separately from other questions affecting their economic relations with the industrialized countries. Lastly, it must be recognized that international co-operation will only be productive if it is acknowledged that there are responsibilities which, while they are uncumbent on the entire international community, are even more incumbent on the industrialized countries. Among these responsibilities is, above all, the need to find collective solutions to guarantee the oil supplies of the various groups of countries. These responsibilities also include the handling of the balance-of-payments problems of the consumer countries (particularly the developing countries) and the mobilization of the considerable volume of resources required for the investment that must be made in energy. In this connexion, it should be borne in mind that, according to the declaration made by the Vienna Conference, technological progress is the common heritage of all mankind: a concept whose most urgent applications are precisely in the energy sector.

4. Food security

The last problem that I wish to refer to concerns food security. According to FAO figures, 15% of the Latin American population—approximately 50 million people—suffer from malnutrition, an assessment that may be considered conservative, if account is taken of the fact that, according to CEPAL's estimates, 19% of that population—approximately 63 million people—live in absolute poverty. The fact that the phenomenon of malnutrition is so widespread in Latin America is paradoxical, however, if the progress achieved in understanding the causes and magnitude of the food problem is taken into account.

In general, food security relates to aggregate world food availability, on which depends the possibility of implementing emergency measures, through the establishment of appropriate minimum reserves, for the benefit of countries passing through critical situations. We believe that this concept should also cover, at the national level, measures to ensure that all members of the community have regular access to the food required in order to satisfy their basic needs and to develop their potential.

Following the World Food Conference, concern with regard to such problems has grown and efforts to study them from various viewpoints have been redoubled. Such efforts have covered both nutritional questions proper and questions relating to food production and food resources. This has, in turn, led to the preparation of a wide variety of analyses and policies in this field, corresponding partly to the variety of approaches already mentioned and partly to the need to tackle at least some of the most serious aspects of the problem.

Moreover, the disparities in the economic strategies adopted by the various countries of the region have led in some of them to high priority being accorded to achieving a greater degree of self-sufficiency with regard to food, for reasons relating both to national security and specifically to food, whereas in other countries the greater commercial and financial openness of their economies has resulted in an increase in the imported component of their food supply.

It may be said, without going into the ad-

vantages and disadvantages of these two options, that it is unquestionable that the extent to which the two aims of achieving a greater degree of food self-sufficiency and acquiring cheap food through international trade should be combined is a basic problem that must be solved in the development strategies of the Latin American countries.

An integrative approach has recently emerged in Mexico which makes it possible to emphasize not only the most important components of the food system, but also the chief interrelationships among them. The study conducted within the context of what is known as the Mexican Food System on the dynamic links between food production, importation, transport, distribution, allocation and consumption has led to important political decisions and to the adoption of simultaneous action in a greater number of areas with a view to promoting steady improvement in the nutritional status of the poorest urban and rural sectors.

It should also be borne in mind that current problems in Latin America relating to food security have two basic causes: instability in international trade in agricultural products, and, despite the progress made, the continuing inadequacy of both the modern and the traditional or peasant segments of the agricultural sector in many countries of the region. With regard to the first cause just mentioned, the well-known sharp fluctuations on international food markets should be borne in mind. For example, the 1973-1974 crisis on international food markets was the result of the convergence at that time of a number of factors, including the adverse climatic conditions that affected some of the principal production areas, the unprecedented purchases made by the Soviet Union, the considerable increases in the prices of petroleum and petroleum products, and the changes in the grain reserve policies of the United States and Canada.

Among the chief consequences of that crisis were a reduction in the tendency passively to accept growing external food dependence, and a trend towards more fundamental and careful analysis of how world supply networks operate. The latter led, in turn, to a more sceptical attitude towards the reliability of imports

as a source of supply to supplement domestic production of basic foods.

In part, these new attitudes are based on the realization that in addition to cyclical phenomena—which have such a great impact on the volume of food resources available at any given time—there is a phenomenon of a structural nature that is decisive in determining how the world market operates and is partly responsible for the fact that a couple of years of low production in the chief exporting countries produce severe shortages on the international market. We refer to the fact that both world supply and demand for cereals depend, apart from climatic variations, on the policies pursued by an extremely small number of developed countries. In addition to this, there is the fact that, if the foreseeable gap between supply and the demand of the importing countries is to be closed, the exporting countries will have to increase their production by at least 4% per year, whereas their historic rate of growth has been only 2.5% per year.

The adverse consequences that this discrepancy will have for prices are abundantly clear, particularly in the context in which the various formulas for multilateral regulation of food prices and stocks have not gained the international community's endorsement.

However, even if it were possible to have available, through importation, the volume of supplementary food required in order to meet domestic needs, provision of access to such imported products for the population groups whose food security is most at risk presents a series of problems that are extremely difficult to solve. This is why many Latin American countries are in the process of preparing strategies aimed at achieving a greater degree of food self-sufficiency as a means of achieving a comprehensive solution to the problem in question and reducing the domestic impact of the sharp fluctuations that occur periodically on world food markets.

In preparing such strategies, careful consideration should also be given to the fact that in a number of Latin American countries agriculture is assuming an important role as a source of liquid fuels, and the implications this new role could have for the food supply should also be considered. Utilization of agri-

culture simultaneously to produce food and energy crops raises questions that are as yet unanswered and gives rise to options that still have to be reconciled regarding allocation of agricultural resources, the make-up of the output in question, the variations that could occur in the relative prices of food, the technological innovations required, the length of time needed in order to produce liquid fuels commercially, and possible reductions in food production.

These are therefore complex and difficult options, whose relative merits may differ greatly in the various countries of the region.

At all events, at least two alternative ways of achieving food security in the context of a high level of self-sufficiency can be proposed: one based on the production sector composed of commercial agricultural enterprises and the other based on the broad peasant sector. As might be expected, these options have very different implications.

In the first case, the various economic policy measures should be aimed at ensuring competitive rates of return on the cultivation of basic cereals and other essential foods, through mechanisms that are so well known it is unnecessary to describe them here. The tools that can be used if it is desired to prevent these higher rates of return from affecting the prices paid by the urban consumer for the products in question are also extremely well known.

In view of the relative dynamism that the modern sector has shown, and continues to show, in responding to the stimuli of effective demand, the desirable level of self-sufficiency could be reached in a relatively short period of time. However, a number of the problems arising from the type of modernization adopted by countries that have taken this path would remain, particularly the inadequate share that the peasantry has in the benefits of a more modern society, with the consequent implications for the peasantry's ability to acquire essential goods, and the increasing use of techniques that call for large-scale consumption of liquid fossil fuels.

In contrast, the strengthening of peasant agriculture represents an enormous challenge consisting of promoting a type of modernization that incorporates and increases the ef-

ficiency of a great mass of small farmers who have considerable production potential.

It is obvious that this path calls for more complex action and longer gestation periods—sometimes considerably longer—particularly when fragmentation and decomposition processes have affected a substantial portion of peasant agriculture.

Implementation of this strategy also depends on the characteristics of the peasant units, and this is worth emphasizing. Firstly, such units can upgrade—in other words, employ for socially productive purposes—resources that are marginal for or simply ignored by commercial agriculture: relatively unproductive tracts of land, redundant labour, and low-cost, although also extremely low-productivity, means of production. Secondly, the energy inputs that peasant agriculture requires in order to operate are considerably lower than those required either directly or indirectly by commercial agriculture. Lastly, the level of intensification that can potentially be attained with regard to the use of labour is higher in peasant units than in commercial agriculture and results—use of other resources being equal—in generation of a greater product per employable person, even though the product per person effectively employed is actually lower, which is socially less important.

The fact that this potential of peasant agriculture does not materialize—or does so inadequately—is due to the weak links between such agriculture and the rest of the economy and society in many countries. These links will therefore have to be strengthened substantially, if this option is to be viable.

However, it is more likely that in practice individual countries will in one way or another promote combinations of the two options in question and that they will seek to develop agriculture through simultaneous progress in peasant and commercial agriculture. Naturally, the extent to which each type of agriculture participates in, and contributes to, the overall development of agriculture will vary from country to country, according to the size and structure of each of its components and also according to the orientation of its national development strategy.

IV

Final observations

In the preceding sections, I have tried to show some of the main traits which characterize the beginning of this decade.

We have seen that in the international sphere, the present economic situation is difficult and uncertain and that loss of confidence is widespread. In these circumstances, protectionism has tended to re-emerge in some of the industrialized economies and in a few of them there is a tendency for economic policy to be inward-looking instead of trying to overcome the current economic problems by effecting a more comprehensive and permanent reorganization of the international economy, in which the countries of the periphery, and the Latin American countries in particular, should play a greater role than in the past.

We do not believe that this 'temptation to remain aloof' is the best way to deal with the pressing problems we all now face. In particular, we think that a reaction of this kind would be frustrating for the countries of Latin America, many of which have for some time been making enormous efforts to expand and diversify their exports and to open their economies up to international competition. If the response of the industrialized countries to these efforts were to increase tariff and quasi-tariff barriers to exports from the periphery and especially to the manufactures which are now being produced there on a competitive basis, the result would not only be harmful for the developing countries but in the last analysis would also obstruct the redeployment which must take place in the industrialized countries themselves if they are to regain a firm footing on the path to economic growth.

At the regional level, Latin America is embarking on the new decade with a wider and more diversified production base and with richer and more varied experience of economic policy, but it also has unresolved problems of distribution and social inadequacies which must be surmounted as a matter of urgency. This task is, moreover, more pressing today than before because, as we have already pointed

out, the region now has, at least from a purely economic point of view, greater capacity to deal with such problems than it had before.

While it is true that the unfavourable international economic situation which now prevails puts serious hindrances in the way of this basic task, our forecast of the outcome is far from being pessimistic or catastrophic. In this sense, the way in which Latin America has tackled the energy crisis is significant, in that it reacted much more effectively to the problems caused by the crisis than had been assumed in the first analyses of the matter. Of course, its behaviour was to some extent facilitated by the increased external debt, which made it possible to effect a smoother and more gradual adjustment. But at the same time there can be no doubt that the region's greater ability to ward off the onslaughts of the external conjuncture also played a decisive role in this connexion.

Thus, it is our heartfelt and firm conviction that it is our internal efforts which provide and must continue to provide the foundation on which our progress is built, and that it would be both mistaken and futile of us to think that all our problems spring from the adverse turn in the international scenario.

Nevertheless, it would be absurd to ignore the fact that these upheavals have also had a decisive impact. In this connexion, we do not doubt that if the international community as a whole and the industrialized countries in particular made a genuine and persistent effort to change the present international division of labour and to establish a new and more equitable international economic order, the region would not only be able to overcome its present economic problems at a much lower social cost but a contribution would be made to the dynamism and stability of the whole international economy.

Even with an improvement in the relevant external factors, however, if the region wishes to achieve more dynamic and equitable development in the course of this decade its task will not be easy, since in all our countries economic pol-

icy must cope with complex and difficult circumstances. It would, of course, be vain on this occasion to try to cover the whole vast range of these problems since, as everybody knows, the variety of national situations and the diversity of the region are extreme. Nevertheless, there are common factors of some degree of relevance in the majority of our countries, to which we would like to draw attention.

The first of these is the need for national economic policies to try to reconcile economic and social efficiency. In this connexion, the experience of the past has amply demonstrated both the imperative need for simultaneous progress in these two fields and the dangers of trying to advance rapidly in one of them while paying too little heed to the other.

Latin America must view economic efficiency with the urgency required by the difficult regional and world circumstances which now prevail. No country can overlook the imperative need for appropriate allocation and utilization of its human and productive resources and for the full development of its productive capacity.

But it is not enough to ensure the efficient allocation and use of economic resources. It is no less vital that they should also be oriented in such a way as to satisfy the most pressing social needs. It follows that in the region progress along the path of economic efficiency must be accompanied by progress in the field of social efficiency.

Both of these are, in our view, essential requirements. Thus, a policy which favoured social efficiency alone, without taking economic efficiency into account, might degenerate into distribution arrangements of a populist nature, which would not only fail to alter the deep causes of inequality and social deficiencies but would be transitory in their impact and easily overturned. In the same way, a policy which placed maximum emphasis on economic efficiency without taking the social consequences of growth into account might cause tensions and frustrations to mount so that in time the effectiveness and permanence of the economic model itself would be placed in jeopardy.

In short, then, the reconciliation of economic growth and the efficient use of resources on the one hand and an equitable distribution of the benefits of that growth on the other is one

of the most complex but at the same time most vital tasks which the economic policy of our countries must tackle.

A second basic field of action of economic policy is the modernization of the principal economic agents operating in the region, i.e., the State and private enterprise.

In the first place, this task of modernization is essential in order to achieve that reconciliation of economic and social efficiency to which we referred previously. However, it also has another goal and is founded on another equally urgent principle: it must bring the region up to the level of the notable transformations which have been initiated and will continue to be made in the world at large, especially in the fields of technology and energy.

We are faced by a process of profound and rapid change in the technological sphere which has manifold courses and effects and which is beginning to make itself felt in a wide variety of ways. In this connexion we have only to think of the changes which will be brought about by the widespread use of microchips and the 'robotization' of some industrial activities.

Latin American private enterprise will have to face up to the effects of this very rapid process of technological change, and it is vital that it should make a vigorous and constant effort to modernize its forms of organization and methods of production.

It is not only private enterprise that must be modernized, however. No less important is the modernization of the State, which must bring its means and instruments of action up to date so as to meet as best it can the essential strategic objectives of ensuring a form of development that is at once dynamic, fair and autonomous.

In this regard it is well to recall once more that an increase in the size of the State is not necessarily synonymous with the efficiency of its action. Without failing to recognize the different role devolving on the public sector in each country—an aspect which falls within the exclusive field of decisions relating to the economic model which each country has decided or may decide to adopt—it is necessary to insist that in a mixed-economy régime, such as that prevailing in the majority of the countries of the region, the public sector must seek the most

efficient forms of attaining its objectives and of ensuring that they will foster and not weaken the dynamism of private initiative. This is all the more necessary if account is taken of the market's own limitations in solving some of the most pressing social problems, in the solution of which State action is absolutely vital.

Lastly, the third common factor which must be considered in some form by all national policies is that of integral development.

The United Nations, in its definition of integral development and in the International Development Strategy, and CEPAL, in its appraisals of the latter throughout the past decade, have laid particular stress on the need to view economic development in a broad social perspective. It would be impossible to conceive of a growth effort which was not in the last instance directed at achieving social ends which will permit men to realize themselves to the full spiritually and materially. This is why one of the main queries existing at this moment of deep-seated changes and notorious and generalized

uncertainty prompts us to ask ourselves once again concerning the ultimate objectives of the society we are aspiring to build up and the role of the average Latin America in it.

In our opinion, despite the upheavals and confusion which characterize the times we live in, these objectives continue to be the same as those which this institution has recommended since the beginning, i.e., the achievement of a development which, at the same time as it creates more goods and services in the material sphere, permits the participation of all individuals in building the society in which they have to live and ensures not only the equitable distribution of the results of progress, but also liberty, as the supreme milieu in which there can be self-realization for all.

It is fundamentally towards the achievement of these permanent objectives, consonant with the region's best ideals, that we consider that the efforts of all our peoples and all their leaders should be directed on a systematic and constant basis.

Problems and orientations of development

CEPAL Economic Projections Centre

At its nineteenth session, held in Montevideo in May 1981, the CEPAL Secretariat submitted a report entitled "Latin American Development in the 1980s", for the main purpose of collaborating with the governments of the region in the preparation of a regional programme of action in relation to the new International Development Strategy.

This article is a slightly modified version of the first two chapters of this report, aimed at the study of two major areas of Latin American development. Firstly, it deals with economic and social trends, focusing its attention on the problems of economic growth, income distribution, poverty, unemployment, energy problems and problems of the external sector, and concluding that it is essential to give a new orientation to development strategies and policies. Secondly, the article considers the main elements of this new orientation, indicating certain objectives which Latin America should set itself in the next decade, especially in the economic field. These include in particular the stepping up of economic growth, the equitable distribution of income and the elimination of extreme poverty; the control of inflation, the transformation of the structure of external economic relations and the stimulation of the participation of the population in development.

The article recognizes the diversity of national situations and stresses the need to take them into consideration in concrete strategies, but it also points out that these general objectives are very useful for guiding the progress of the particular processes towards the common goal of development.

Introduction

The purpose of this article is to present a succinct appraisal of the central problems of development in Latin America and a global analysis of the strategies which should be promoted to foster the economic and social progress of the countries of the region. It is difficult to achieve these aims in a satisfactory manner because of the variety of situations and prospects to be found in the region. The effort is well worth making, however, as it is evident that almost all the countries share major aspects of the development problems of the region which are of great significance for practical action, especially those relating to the nature and structure of the socio-economic process which is underway and to the external relations of the countries of the region.

This variety and diversity of situations covers such aspects as the degree of economic development, in terms of differences in per capita income and in the extent and integration of industrial development; the growth potential, which depends on the countries' size and endowment with natural and human resources; the political and social conditions shaped by varying historical and cultural factors and the variety of circumstances in which the countries became sovereign States; and the varying degree of viability of strategies and policies even in countries with similar political and social conditions.

The effort is further complicated by the substantial changes taking place in objective socio-economic circumstances, national policies and the regional and international setting (particularly in fundamental aspects of trends in the developed countries which in one way or another affect the Latin American countries); by the instability and uncertainty stemming from these changes; and by the problems of availability and rising cost of essential goods such as oil, which are central to an entire stage of technological progress and of industrial civilization and which, favourably or unfavourably, and to a varying extent, affect all the countries of the region. This complexity becomes even greater on account of the simultaneous action of exogenous factors which, while not new, have become more significant in the present setting; this is true in recent years of the unevenness of

world agricultural production, affected by adverse weather conditions.

The situation is also imbued with a certain climate or feeling of frustration at both the national and the regional and international levels. The impression used to exist that the stability and rapid growth of the world economy and the favourable trends in the Western countries and in Eastern Europe following the war were largely due to sound decisions regarding the institutional and functional organization of the world economy and to the progress made by economic science and policy which had succeeded in programming or guiding the successful management of natural economies and of the mutual economic, financial and technological relations among countries. This is no doubt quite true. It is nonetheless true, however, that the events which have taken place in the course of the 1970s appear to demonstrate that this expansion of the world economy and the economic growth of the Western industrial countries was attributable not only to experience and to the programming of economic policy but also to favourable conditions for the exploitation and supply at relatively low cost of basic resources such as oil, of which their technological development enabled them to make advantageous use. A similar line of reasoning could be applied, although perhaps more on an interrogative level, with regard to the economic growth of the socialist countries, although their circumstances and experience are different, as may be easily understood. Nevertheless, it is well known that certain limitations in the availability of basic and human resources explain at least some of the present slackening in the economic growth rate of these countries.

Clearly, then, the problems under consideration go beyond the methodological field. At the more general level, they are related to the conditions of viability of a style of development which has spread very rapidly in the industrialized countries and which is being absorbed by the developing world, raising a serious question as to whether the present economic and political crisis is of a conjunctural nature. At the more specific level with which this document is concerned, the above-mentioned heterogeneity also raises problems for the appraisal and formulation of strategies and

policies, and special mention may be made of the following:

(i) it is not easy to put forward specific judgements or proposals regarding development policies which will be really valid for all the developing countries. In this connexion, the studies based on statistical data or information referring to the region as a whole tend to reflect the situation and problems of a few large or medium-sized countries, at the expense of the others;

(ii) substantial differences in economic and social systems also lead to noteworthy differences in the scope and forms of institutions and in the measures which can be applied in practice;

(iii) the general political system and the degree of organization and participation of the different socio-economic sectors have a great effect on power relations and thus on the formulation and instrumentation of policies;

(iv) the participation of foreign investment and the context of external relations may thwart the fully justified aim of national autonomy in the management of economic affairs; and

(v) differences in economic scale, population and resource endowment have direct repercussions on the structure of economic growth and the scope of policies.

A problem of particular importance which involves many of these distinctive features is that of the formulation of strategies and policies applicable to both the large and small countries of Latin America. Obviously, the structure of economic growth and the degree of diversification and integration will vary significantly in the two cases, and standard prescriptions in this field will be meaningless. Furthermore, it is fully recognized by the economic integration agreements concluded in the region that the small countries, described as being relatively less developed in economic terms, need special or preferential treatment; the same consideration applies to the countries described as having insufficient markets. In this connexion, it is felt that economic integration is precisely the solution which will provide these countries with more favourable conditions for integral development than they could achieve in bilateral relations or in the world market. Again, at the international level these differences are

observed not only with respect to the relatively less developed countries but also with respect to those which suffer from particular balance-of-payments problems or are islands or land-locked countries.

In these circumstances, the analysis must be placed at a rather general level. Neverthe-

less, major problems shared by all the countries obviously do exist, and therefore it is perfectly possible to undertake a comprehensive review of the more salient aspects of these and other problems and of their future course, while making the necessary allowance for peculiar events or circumstances.

I

The central problems of development

A. THE DEVELOPMENT PROCESS AND THE FORMATION OF EXTREMELY INEQUITABLE SOCIETIES

1. *Economic growth and social inequality*

Latin America has obviously undergone a process of economic growth and social change of considerable importance since the war, yet it is equally true that the nature of that process has led and still leads to the formation of highly inequitable societies. The forces of production have developed, increasing production capacities and heightening the sectoral and technological transformation of the economy, and the productivity of labour and of enterprises has been raised, leading to higher national income, but at the same time the differences and segmentation in society have been accentuated: unemployment and underemployment persist, and a large section of the population still lives in conditions of poverty and even of abject destitution. These and other factors restrict the active economic and social participation of the population and generate powerful sources of instability.

The most striking features of the style of development prevailing in the region may be seen in the socio-economic structure, characterized by a very high concentration of wealth and income in small segments of the population; a large section of the population living in conditions of extreme poverty; and the often rapid growth of the middle social sectors, which is fraught with major economic, social and political consequences. Another particularly important feature of development since

the war is the process of change which has taken place in agriculture and in its economic and social interrelationships with other activities. The development of a modern entrepreneurial sector and the spread of technological progress in agricultural production are altering the structure and functioning of rural society and integrating it more fully with the rest of the system, while at the same time increasing the differentiation between modern agriculture and the traditional or peasant agricultural sector.

The determining or inherent factors of these structures are essentially linked with the concentrative forces of the prevailing economic system, the private appropriation of the surplus, and the degree to which it is used to increase ever more diversified non-essential consumption, as well as consumption investment, following the patterns of the industrial countries with a higher per capita income. In particular, this process is influenced by the concentration of the means of production and of land ownership, the rising share of production accounted for by the modern entrepreneurial sector, the growth of the liberal professions, and the new employment structure which accompanies economic growth. This process is further accentuated by the high growth rate of the population (and particularly of the labour force) and the lack of economic dynamism, although as the experience of many countries shows, the improvement of the latter is not a sufficient condition alone for changing the socio-economic structure to the desirable degree.

This latter structure is also related to the situation as regards inter-sectoral productivi-

ty while within each sector it is characterized by the significant differences in the product per person employed and in the varying growth rate of that variable. It is also clearly linked with the institutional structure and the structure of power relations, and with the degree of participation of the various social groups: the existing power relations help to strengthen rather than remedy this inequitable, concentrative and exclusive process.

In these circumstances, there are no sufficiently dynamic factors which will spontaneously change the nature of the socio-economic process, at least within the timespans demanded by the seriousness of the social tensions generated by these problems. Consequently the possible effects of partial policies and measures are severely limited. The problem must be tackled through integral strategies and policies which lead to the creation of institutional and structural conditions aimed at a reorientation of the development process to achieve specific social ends. The nature and magnitude of the issues to be tackled are appropriately illustrated by the statistical indicators of income distribution, the extent of extreme poverty and the degree of employment of the labour force.

2. *Extremely unequal income distribution*

The pronounced inequality in income distribution may be appreciated from the CEPAL studies based on the latest figures available at the beginning of the 1970s for a group of ten countries. Despite the time which has elapsed, these figures may be considered as still fundamentally representative of the present situation. These studies show that family income distribution varies appreciably from country to country. In general terms, the countries with a higher per capita product have less unequal structures of family income distribution, this being most evident in the case of the size of the share received by the social group comprising the top 10% of families.

Interpolating the theoretical distribution corresponding to the group of these 10 countries gives the following results for personal income distribution: (i) 10% of families account for 44% of total income; (ii) the bottom 40% of

families receive only 8%; and (iii) the middle 50% of families receive the remaining 48% of income.

Although there are no complete studies on this question, it is broadly considered that in most cases tax policies and access to and distribution of State services, as well as other specific measures, do not appreciably alter these distribution patterns. On the contrary, a good part of such services and other subsidies largely end up benefiting the middle or upper strata.

In any event, it may be seen that the dynamism and characteristics of the economic process are fundamentally influenced by a small fraction of the population which receives a large proportion of the total income. Thus, for example, the 20% of families with the highest incomes account for between 55% and 65% of total personal income.

These forms of inequality in themselves represent situations of extreme inequity and profound social instability, and this is further aggravated by the high proportion of the population whose income is not sufficient to meet even their basic needs.

3. *The magnitude and extent of poverty*

According to studies by CEPAL based on data for the early 1970s, 40% of the families in the region were living in poverty, in that their income was not enough to cover their essential needs. This figure would at that time have amounted to 110 million people, and in the best of cases this absolute figure will have remained the same. As the percentage varies from country to country, in some the relative size of poverty is smaller, while in others it is much higher than this average. Obviously, the countries with higher per capita income or a less unequal distribution have a smaller proportion of the population below the poverty line.

The proportion of poor families is much greater in rural areas, accounting for almost two-thirds of all the region's poor. The remaining third are to be found in the peripheral urban sectors; they consist of landless workers, those living from subsistence-level family economic activities, and underemployed, low-skill wage earners. In the urban areas, these families are

connected with personal services and commerce and comprise own-account workers and unemployed or underemployed persons with very low incomes.

The seriousness of these situations is all the more patent bearing in mind that the families living in destitution, that is, those whose incomes are not even enough to pay for an adequate diet, represent 20% of the total population and about half the poor population. Naturally, here again the percentage varies from country to country.

A central topic which should be studied is that of the relations between the economic growth process, the distribution of income, situations of poverty and the level of employment, although the information on these subjects in the region is only partial. However, bearing in mind the many studies made of the interrelations of these variables in Latin America and other regions, some conclusions may be advanced.

In the early stages of economic development the personal distribution of income in the economy as a whole tends to be concentrated, with the share of the lower-level social groups declining while the proportion of income received by the upper income groups and some of the upper-middle groups increases. At more advanced stages, the proportion of income received by the lower levels tends to rise; in other words their average income rises more than the average income of society as a whole.

This may be explained, *inter alia*, by the changes taking place in the employment structure and wages in the economic growth process. In that process a major role is played by the degree of inequality or concentration in each of the economic sectors, the differences in average income in each sector and the size of the corresponding active population. In Latin America, it might be expected that with the drop in the relative importance of the active population connected with agriculture the proportion of income received by the lower strata (40% of the total population, for example) should tend to rise. Apparently, however, this is not happening.

The explanation may be found in the following aspects: (i) in each sector the distribution tends to become concentrated because of

the changes resulting from the modernization process and the persistence of a large amount of redundant labour; (ii) the income gap between the different sectors, and particularly between the agricultural sector and other activities, has either not declined or at least has not done so to a sufficient extent to influence the global distribution; and (iii) while the proportion of the active population in the agricultural sector is declining, at the same time the high proportion of the active population in the traditional or peasant agricultural sector is increasing or remaining the same, while emigration from rural zones helps to increase or maintain the large proportion of the urban active population engaged in marginal activities, with low productivity and very low incomes.

Thus, a strong structural rigidity prevails which militates against any policy aimed at improving the distribution, because such improvement depends partly on a decline in the unemployed population or those underemployed at very low levels of productivity in traditional rural activities and in the marginal urban sector. In other words, what is needed is to increase the proportion of employment in the sectors of rising productivity and higher remuneration, and in order to do this, deliberate and appropriate political action and an accelerated economic growth rate, as well as greater training of the labour force, are required.

The proportion of the population living in poverty, that is, receiving an income which is too small to meet a set budget of essential goods, has very likely tended to decline with the historical process of economic growth, but the absolute size of that population has not necessarily declined, and indeed would appear to have increased, as may be inferred from some partial recent studies.

Two comments are called for here: firstly, this process is relatively slow, as has been verified in countries where economic growth has been comparatively strong; and secondly, any long-term analysis must include the concept of relative poverty, since from the standpoint of a social appraisal it is neither logical nor correct to assess the situation of a social sector in terms of an unchanging minimum income while the per capita income of the other social groups is rising to a significant extent. The study should

be rounded off by considering, for example, a poverty line which rises in a fixed proportion to global average income.

If this criterion were adopted, it would no longer be possible to reach the foregoing conclusion concerning the relative decline of poverty. Instead, it would be seen that according to historical data from some countries the average income of the upper strata is rising in both absolute and relative terms by much more than the average income of the social sectors in the lower strata. In other words, while the poor, low-income sectors have benefited only to a meagre extent from the economic development process, the upper-middle and top income sectors have received the bulk of the rise in income stemming from economic development.

It is therefore clear that the indicator reflecting the evolution of average per capita income for society as a whole is not a satisfactory index of the evolution of social welfare, as in the final analysis it tends rather to reflect the growth of the per capita income or the income per person employed in the upper social strata. Other more representative indexes of social welfare should be developed.

4. *The problem of unemployment*

As is all too well known, poverty situations are connected with unemployment and underemployment. It is estimated that in the region as a whole unemployment and underemployment affect the equivalent of 28% of the economically active population. It is highly probable that this situation has worsened since the mid-1970s, on account of the faltering economic growth rate in numerous countries. Open unemployment is very high in many countries, affecting a relatively constant proportion of the labour force, about 6% for the region as a whole. Much larger however is the size of the population which is underemployed or receives an income below a given minimum. This population is estimated at 22%, more than half of whom live in rural areas. Naturally, the structure of poverty situations is to some extent similar to that of unemployment.

Unquestionably, judging by the size of unemployment and underemployment as well as by the extent and seriousness of poverty, the

evolution of these problems has been far from satisfactory. This is the consequence of at least three major factors, namely: the relatively high growth rate of economically active population, modernization and the incorporation of technological progress, and the pace of economic growth.

The supply of labour has grown in most Latin American countries at an extremely high rate in comparison with the past experience of the industrialized countries. This is compounded by the large unemployed or underemployed population of active age. Despite these special circumstances, the modernization process has proceeded, at least up until now, by incorporating methods and techniques developed for situations characterized by the typical endowment of resources and other factors of the developed countries, which are significantly different from the conditions prevailing in the region. These techniques continue to replace labour and increase capital density. The effects on the supply of jobs in the developing countries are easily appreciated, since modern technology is adopted at the very time when an extremely high proportion of the economically active population is linked with traditional activities in the rural sector and marginal or low-productivity activities in the peripheral urban sectors.

Despite the constant harping on the need to create appropriate technology or adapt the techniques of the industrialized countries in the interests of a greater absorption of labour, powerful forces support the application of designs and processes available in the market or distributed by production enterprises. In these circumstances, the rate of economic growth must be much higher in order to bring about sufficient absorption of labour to avoid any worsening of employment problems, and higher still if the aim is also to improve the employment situation for society as a whole.

It is interesting to review some concrete aspects of this problem on the basis of the latest statistical data prepared by the Regional Employment Programme for Latin America and the Caribbean (PREALC). Employment in the organized sectors of modern urban activities has grown appreciably, perhaps at an annual rate twice that of the total growth of the econo-

mically active population. There has also been some slight growth in employment in entrepreneurial agriculture. However, the effect on total employment of the rapid rise of employment in the urban sectors and perhaps in the modern agricultural sector has been relatively limited, since much of the economically active population is connected with traditional or peasant agricultural activities and with the marginal sectors of urban activities.

B. THE DROP IN THE ECONOMIC GROWTH RATE, ITS PARTIAL RECOVERY AND PRESENT INSTABILITY

1. *Economic growth and the evolution of the external sector*

In order to appreciate the conditions characterizing the economic development of the Latin American countries at the onset of the 1980s, and to appraise the nature of the problems to be faced, it is worth making a brief reference to the experience of the past decade. During that period, the economic growth of the Latin American countries varied considerably, with highly significant changes in its rate and structure. The process was strikingly dynamic in some countries but comparatively slower in others, and broadly speaking the region passed from a boom period to one of particular weakness, followed in the last few years by a moderate recovery in a climate of great instability and uncertainty, particularly for the non-oil-exporting countries.

The growth rate of the region as a whole during the 1970s (somewhat less than 6% a year) shows that in reality the region continued with its past moderate dynamism, without registering the increase which might have been expected in view of the more favourable experience of the early years of the decade. This was because the growth rate fell after 1975, and despite the recovery noted in one or two years, 1975-1980 was the period of slowest growth since the war. During the second half of the 1970s, the oil-importing countries had to tackle balance-of-payments problems caused primarily by the worsening of the terms of trade and the extraordinary rise in the cost of fuel imports; in most cases, they sought to adjust to the

new circumstances while at the same time maintaining a certain rate of growth.

The course of the world economy, and particularly trends in the industrial countries, with which Latin America maintains most of its external relations, exerted particular influence on this rise and fall of the growth rate, and the serious problems affecting the world economy have had clear effects and repercussions on the situations and prospects of future growth of the Latin American countries. Consequently, it is of particular interest to recall, although summarily, the cycle of these interrelations of internal and external factors in order to gain a better understanding of the nature of the problems currently facing Latin America, and thereby shed light on the essential aspects that must be taken into account in strategies or policies aimed at stepping up the economic growth rate of the 1980s.

The 1970s may be divided into three clearly identifiable periods, namely: (i) the boom in the early years of the decade, which was partly the continuation of a process that began in the late 1960s; (ii) the crisis of the economic growth rate in the mid-1970s; (iii) moderate and unstable recovery from 1975 onwards.

During the first four years of the 1970s the economic dynamism of the region as a whole increased, and the annual growth rate of the domestic product rose to over 7%. While this growth was basically determined by a very small number of countries, the improvement was nonetheless widespread and to a varying extent affected most of the countries of the region. Particularly important among the dynamic factors were the national policies directly aimed at boosting economic growth, as well as the buoyant external demand stemming from the favourable evolution of the economies of the developed countries until 1973. The improvement in the terms of trade and the more flexible availability of external financing also contributed to the process. This experience showed that when external conditions are favourable the region is capable of sparking off a very wide-ranging dynamic process of investment and real growth of the economy.

In 1974, however, the Latin American economic picture and the course of the world economy changed considerably. The oil-exporting

countries benefited from the significant rise in oil prices, which led to higher real income and greater import capacity for them. On the other hand, the non-oil-exporting countries were faced with weaker external demand due to the economic recession in the developed countries, while at the same time their terms of trade deteriorated. During that year investment and the domestic product continued to expand in these countries, and there was a considerable rise in their imports, but this led to a heavy deficit on the balance-of-payments current account, which they covered partly from their monetary reserves and partly with external financing.

In 1975, the worsening of external conditions led to a significant drop in the import capacity of the Latin American countries, and despite the contraction or adjustment of imports the balance-of-payments current account deficit rose again above the high figures recorded in the previous year, while the economic growth rate plummeted to 3%: i.e., virtually the same as their population growth.

As of 1976 the economic process was characterized by marked instability and difficulties in all-round recovery. The economic growth rate was very uneven, varying considerably from country to country: the average annual rate in the period 1975-1980 was 5%. This rate is heavily influenced by a very small number of countries, such as Brazil and Mexico, which raised the average while most countries continued to experience more difficult conditions of extreme external vulnerability and a low historical growth rate.

It is quite clear, then, that external sector developments directly affected the course followed by the Latin American countries, to a varying degree and in one direction or another. This is not to overlook the fact that domestic policies have been the other major factor in the acceleration or weakening of economic growth. In practice, circumstances in the mid-1970s led to a rise in external indebtedness with subsequent negative repercussions, particularly through the effect on the balance of payments of servicing that debt, which thus created a new kind of external vulnerability.

Broadly speaking, it may be said that out of a number of options the policy adopted by most

governments had the fundamental objective of promoting suitable conditions for avoiding a recession or a drastic drop in the economic growth rate. They continued with their export promotion policies and increased external indebtedness to cover import needs.

2. *The growth of exports and economic trends in recent years*

A noteworthy aspect of recent trends was the growth in the volume of exports of almost all the countries of the region. The average growth rate was much higher than the historical rate, and even higher than the rate during the early years of the previous decade. This was influenced by the policies followed by the Latin American countries deliberately to promote the growth of exports; the rise in world demand due to the upturn in the economic growth rate of the industrial countries following the recession of 1975, although without attaining pre-recession levels; the external demand for building up stocks as well as speculative factors in a climate of world inflation; declining costs because of the devaluation of the dollar; and the favourable conditions which developed with the greater competitive capacity of the developing countries, and above all of the Latin American countries, particularly in branches of light industry and primary commodities with some degree of processing, which gave rise to large flows of non-traditional exports.

Nevertheless, the greater volume of exports did not suffice to attenuate the serious balance-of-payments problems of the oil-importing countries, for a number of reasons:

(i) the rise in the value of imports, caused particularly by inflation in the industrial countries and the higher oil prices for importing countries. In these countries, fuel imports rose significantly as a proportion of total imports or of current foreign exchange earnings. Thus, for example, the value of net fuel imports in 1973 represented 8.4% of total imports of goods, rising to 23.8% in 1979;

(ii) The worsening terms of trade;

(iii) The widespread inflation in the industrial countries which raised the prices of

manufactured goods imported by the developing countries;

(iv) The higher cost of servicing the mounting debt and the rise in interest rates;

(v) The need to recover specific import levels, following the decline in the mid-1970s, in order to underpin the growth of the domestic product;

(vi) The need to keep monetary reserves up to certain levels, which were rising due to world inflation and the nature of the capital inflows destined for short-term investment or the financing of private enterprise.

In these circumstances, the non-oil-exporting countries managed shakily to maintain some rate of growth, or increase it in recent years, but their external vulnerability has increased. This may be seen in the large current account deficits in the balance of payments, which for the non-oil-exporting countries represented 3.4% of the product and 13.8% of domestic capital formation in 1979; in the high proportion of current export earnings which the servicing of the debt and profits of direct investment represent, amounting to 44.5% in 1979; in the size of the external debt; and finally in the worsening of the terms of trade, on account of the rise in the prices of imports of manufactures, and particularly of petroleum.

There are no signs in the short term of fundamental changes which may enable the Latin American oil-importing countries to overcome this situation, in the absence of major changes in the institutional organization and in the structure and functioning of the world economy as well as in national policies.

In the first place, there is some agreement at the technical and political levels that the growth rate of the industrial countries which currently account for two-thirds of Latin American exports will be slight in the coming year, and that its subsequent recovery will in any event attain an average rate significantly lower than that achieved by those countries until 1973. The socialist countries too are expected to have a much lower growth rate than in the past. The conclusion may therefore be drawn that the demand for imports from the developing countries, and particularly from Latin America, will grow slowly, and that the real prices of commodities or commodity products

with some degree of processing will not be buoyant, unless there are adverse weather conditions for agricultural products. Consequently, what is most likely is that the non-oil-exporting countries will continue to see a decline in their terms of trade in the coming years, inasmuch as inflation persists in the industrial countries and the real price of petroleum rises.

The resurgence of protectionist measures in the industrial countries will strengthen these tendencies, by limiting access to those markets for various branches of manufactures of particular interest to Latin America, in which it has a real or potential capacity for increasing output with a view to expanding exports.

With regard to the use of external financing, which in recent years helped to sustain the economic growth rate, various situations may be foreseen which may entail serious difficulties for continuing to channel towards the developing countries the funds available in the financial markets and the large surpluses which will accumulate in the oil-exporting countries. Clearly this conjunction of various elements represents a highly unfavourable scenario and probably will not occur quite so intensely. However, this identification of the trends and problems affecting the major external variables of economic growth, to which we will return later, is very useful for pointing out the fundamental issues to be considered in connexion with the instrumentation of a new international economic order, which the new IDS seeks to promote.

C. ENERGY

Latin America has abundant resources of the three traditionally most important forms of commercial energy: hydrocarbons (petroleum and natural gas), hydroelectricity and coal; but they are distributed very unevenly in the region. The sources of hydroelectricity are considerable and more uniformly distributed. This is not true of hydrocarbons or coal, the known reserves of which are heavily concentrated in a few countries. In the case of oil, for example, almost 80% of reserves are to be found in Venezuela and Mexico, and the picture is much the same for coal, as Colombia and Mexico account for 60% of known reserves.

In contrast, the structure of demand for energy in all the countries is fundamentally based on petroleum. Although only five countries produce sufficient oil to meet their needs, Latin America's consumption of this fuel represents more than 60% of the total commercial energy used in the region. Adding the consumption of natural gas to that of petroleum, as it is generally obtained in association with the latter, the total consumption of hydrocarbons represents 75% of total energy consumption. Hydroelectricity, on the other hand, is only used to a limited extent in relation to its production potential, and the importance of coal as a source of energy is even smaller.

Thus, in most countries there is a striking difference between the structures of energy supply and demand, leading to heavy dependence on imported oil to satisfy domestic needs.

The dynamism and the productive and technological changes which have characterized economic development since the war may be clearly appreciated in the rise in energy consumption and in the changes in primary energy sources. Over the long term (1950-1975), total energy consumption in the region as a whole grew at a rate of approximately 5.5% annually, or in other words in line with the growth of the gross domestic product. On the other hand, the consumption of commercial or modern energy grew much more rapidly than the domestic product, at a rate of nearly 7% annually. This process originated in the major changes which took place in energy sources, as a consequence of technological progress and in particular the structural changes in production and domestic demand accompanying economic development. In 1950, the output of traditional non-commercial sources satisfied nearly 40% of total consumption in the region as a whole, as against only about 15% in 1976.

In contrast with what occurred on the consumption side, commercial energy production grew by only 4% annually in the period 1950-1975. As a result of the difference between the two trends, there was a relative decline in Latin America's exportable surplus. Thus, in 1950 the region consumed as products 27% of its petroleum output and 17% of its natural gas production; in 1975 these percentages had risen to 57 and 43%, respectively. Thus, though

the region continued to be a net exporter of fuels, the trend was towards a rapid dwindling of its exportable margins. Subsequently there has been a tendency towards a change in this situation, with the growth of output and new export flows, primarily from Mexico.

The situation and prospects differ considerably from country to country, and this is particularly affected by the large share of hydrocarbons and the weight of such imports in the supply of domestic needs. A classification of countries according to their degree of dependence on oil imports shows noteworthy differences. On the one hand, there are the net oil-exporting countries, and on the other, the importers, where the share of imported oil in total consumption varies considerably from one country to another.

D. ASYMMETRY AND VULNERABILITY IN EXTERNAL ECONOMIC RELATIONS

During the 1970s a profound change took place in the form of insertion of Latin America in the world economy, and its process of internationalization and of linking up with the industrial market economy countries grew stronger. Transnational corporations played a preponderant role in this process, as did private international banks on account of their importance as a source of external financing for Latin American countries. The governments have followed policies of greater openness to the exterior in various economic, financial and technological fields. Concrete signs of these new relations and problems are to be seen in the participation of transnational corporations; in the pace and composition of external trade; in the trends in the terms of trade; in the scale of external financing and the sources providing it; and in the degree of external indebtedness.

The transnational corporations have an important share in manufacturing output. They dominate the key sectors of greatest dynamism and technological progress, particularly in the chemicals, basic metals, engineering and automobile industries. They have a smaller participation in traditional industries, where national enterprises weigh more heavily. The bulk of their operations is directed towards the domestic market, and less to exports. They are

the channel for a significant proportion of imports, of external financing and of the incorporation of technology by the countries of the region. In these circumstances, the action of the transnational enterprises must evidently be in keeping with the development policy adopted by national governments. Consequently, fixed rules of conduct must be established for the transnational corporations in order to secure that compatibility. At the same time, it will be necessary to promote new forms or machinery leading the transnational corporations to co-operate more closely with the policies and plans or programmes decided on by national governments.

Exports have become diversified through the effects of two processes. Exports of manufactured goods have increased, amounting to 20% of total exports for the region as a whole, but this rise was not evenly spread, tending to be concentrated in the group of large and some medium-sized countries, where the percentage was higher. At the same time, national exports of primary commodities were diversified, and new flows of agricultural and mining products began to acquire considerable importance. Thus, the effects of industrialization and of production changes which have been taking place for some time in the Latin American economies have begun to extend to exports.

In recent years, and particularly since the recession of 1975, Latin American exports expanded rapidly until they attained a growth rate which may be considered relatively high, in the context of trends in the entire postwar period. This process was affected by the growth of the industrial or agricultural production capacity created in past years, and especially by the deliberate export-promotion policies which were even more active in recent years on account of the pressure of balance-of-payments problems. With the exclusion of Venezuela, whose exports declined or remained constant, the volume of exports of goods and services of the Latin American countries as a whole showed an annual average increase of 8.9% during the period 1977-1980.

In the late 1960s a trend towards greater liberalization of imports first became visible, which in a large number of countries represented a new stage of economic policy that

was clearly different from the situation in the 1950s and early 1960s. At the beginning of the 1970s, with the support of greater external financing, the ratio of imports to the domestic product tended to rise. In the second half of the decade, on account of the balance-of-payments problems plaguing many countries, the coefficient tended to decline but it has latterly begun to rise again in the context of a more liberal policy.

The composition of imports is particularly significant for prospective studies. In the first place, they consist largely of intermediate products, fuels and capital goods, so that the total demand for imports is closely linked with the course of domestic production and investment. Secondly, the value of imports of fuels, lubricants and other petroleum products has increased appreciably in most countries, as a result of the need for bigger foreign supplies and of the rise in prices, and represents a growing proportion of current foreign exchange earnings.

Despite the progress made in the diversification of exports, and particularly the inclusion of manufacturing branches, the foreign trade structure of Latin America continues to be typical of the developing countries. Firstly, although more diversified in all branches, exports contain a high proportion of primary commodities with a varying degree of processing, and a relatively small proportion of manufactures. On the other hand, imports consist mostly of fuels and manufactures, including essential intermediate goods and capital goods, on which economic activity in general and the formation of production capacity in particular depend. In addition, the small proportion of non-manufacturing imports often consist of foreign supplies of food products, of particular importance for many countries. Clearly, the composition of imports will be different in the case of countries which have adopted liberal policies with a high degree of openness to the exterior.

This leads to an uneven structure of external economic relations which the protectionist policies adopted by the industrialist countries tend to perpetuate. In other words, imports consist of fuels and the goods essential for maintaining and increasing economic activity

and the growth process, while exports contain only a small proportion of manufactures, which must be expanded in order to achieve a more balanced structure in trade relations and particularly in the faster-growing areas of world trade.

In the inflationary context dominating the world economy, the prices of commodities and manufactures have not developed at all uniformly either in general or within their component branches, with the result that the effect of variations in the terms of trade has varied in intensity and impact among the Latin American countries. As is well known, the terms of trade of the oil-exporting countries improved during the decade, in comparison with the markedly low level of the previous decade. In the non-oil-exporting countries, on the other hand, the terms of trade have worsened in recent years, although to a varying extent. Taking these countries as a whole, it may be seen that the improvement in the terms of trade favoured them for a relatively short period, particularly in the two years 1973-1974; but their position subsequently began to deteriorate and the index of the terms of trade for goods and services in the last two years is significantly lower than at the beginning of the 1970s.

There has been an enormous change in both the amount and sources of external financing in Latin America. The deficit on the balance-of-payments current account of the group of non-oil-exporting countries has risen considerably, amounting to an average of 3.3% of the gross domestic product in the 1970s, well above the 1.9% average recorded in the 1960s. Inflows of foreign finance tended in many countries to be well above the current-account deficit and helped to increase foreign currency reserves, except in 1980 when the balance-of-payments current-account deficit increased

considerably and the countries financed part of it with their reserves.

Another striking aspect is the fundamental change in the sources of financing. During the 1950s and early 1960s, the bulk of capital flowing into Latin America was official long-term capital, and consisted partly of direct investment. In contrast, in the 1970s a large proportion consisted of private bank and commercial sources, for the short or medium term, bearing rising interest rates. Consequently, the burden of financing the external debt has risen with respect to the national income and the current value of exports. In addition, there is growing concern about the possibilities of continuing with this system of financing, due to factors linked with the functioning of private banks and the management of the debt by the borrower countries.

The result of this process has been an appreciable increase in the external debt, rising from 10 billion dollars in 1965 to about 150 billion dollars at the beginning of 1980. In brief, a situation of external vulnerability has arisen which is of particular significance for the future course of economic growth.

The economic integration agreements have run into difficulties and in most cases have failed to achieve the targets and objectives they had set themselves. Nevertheless, significant progress was made in multinational investment in infrastructure, particularly in the energy field, as well as in the expansion and diversification of intra-regional trade; the proportion of total exports going to countries of the region has increased, and includes a larger amount of manufactures —intermediate and capital goods— than exports to other areas; and in the case of some countries, these trade flows have represented a significant growth factor in specific branches.

II

Towards a new orientation of development

A. TOWARDS A COMPREHENSIVE AND INTEGRAL SET OF PROPOSALS ON ECONOMIC DEVELOPMENT AND SOCIAL CHANGE

Thus, three central aspects are to be distinguished in the development problems affecting the region. Firstly, and at the most general level, there is the existence of extremely inequitable societies with high concentration of wealth and income, high levels of unemployment, and the persistence of poverty which affects a substantial sector of the population. Secondly, there is the decline in the economic growth rate observed in most of the Latin American countries, the recovery from which is conditioned by factors of instability and uncertainty largely related with external variables. Thirdly, there is the imbalance still being recorded in the external trade structure on account of the differing flows of imports and exports and the unfavourable evolution of the terms of trade of the non-oil-exporting countries, together with the growing external indebtedness, with its material and financial effects on real national income, and the deterioration in the balance-of-payments situation. All this goes to make up a situation of extreme vulnerability and instability as regards the economic growth process.

These are consequently aspects which concern the structure and functioning of the economic and social process, which are inherent to that process, and whose solution calls for institutional and structural changes at the domestic level and in the world economy capable of bringing about a new form of functioning of the economy and society in order to attain specific objectives. In this respect, the experience of Latin America and other developing areas clearly indicates the aspects and problems which warrant special consideration in the enunciation of development strategies and policies aimed at promoting economic growth and social welfare in the framework of more equitable societies.

Among the objectives and conceptual aspects which should form part of a development strategy, particular reference may be made to the following:

(i) speeding up the economic growth and productive and technological evolution of the national economies;

(ii) promoting the equitable distribution of national income and eradicating situations of extreme poverty in the shortest possible space of time;

(iii) formulating a suitable economic policy designed to attain certain conditions permitting the control or avoidance of inflationary processes;

(iv) promoting change in the structure of external economic relations and achieving satisfactory conditions as regards the performance of the external accounts of the balance of payments;

(v) stimulating the active economic, social and political participation of the various social sectors in the economic and social development process and ensuring the welfare of children, the participation of young people, and the integration of women;

(vi) preserving the quality and increasing the potential use of the environment in order to improve living conditions and lay the foundations for a type of development which can be sustained in the long term;

(vii) preserving and stimulating cultural authenticity and identity and the development of independent life styles, and

(viii) maintaining sovereignty over national resources and autonomy in the management of the development process.

The formulation of a strategy incorporating these diverse elements, along with other related objectives and concepts, undoubtedly represents an extraordinary challenge to the existing knowledge and experience on economic and social policy, and the application of such a strategy will furthermore represent a delicate political task.

The acceleration of economic growth and

productive and technological change is essential in order to strengthen the national economies and lay suitable foundations for facilitating the execution of a social policy. In particular, the intensification of economic growth is necessary in order to increase the production capacity of the labour force, promote accumulation and facilitate the application of policies aimed at improving income distribution and resolving situations of extreme poverty through the active incorporation of the labour force into high-productivity activities. Economic development is thus a necessary but not of itself sufficient condition for achieving certain objectives connected with better distribution of the fruits of economic growth and the eradication of poverty.

In the conditions currently prevailing in Latin America, the technological structure of the economy, the distribution of assets and wealth and the power relations between the different social groups create situations of resistance and inflexibility in the determination of the primary distribution of income.

This distribution can be altered by the action of other factors, especially the collection of resources by the State through the tax system, the distribution of such resources in the form of personal remuneration and various types of transfers, and the access of the various social groups to the goods and services produced by the State.

There is no specific information available in Latin America which makes it possible to determine with reasonable accuracy the differences observable between the distribution before and after the payment of taxes. According to some partial investigations, it would appear that the distribution of family income after the payment of taxes and the allocation of goods and services to those sectors which benefit from them is not significantly different, especially in the case of the poorer groups. Indeed, it would appear that either directly or indirectly the goods and services provided by the State, and even infrastructural works, tend to heighten the inequality of distribution, since these services are enjoyed to a large extent by the middle and high sectors, and only to a lesser degree by the poorer sectors located at the lowest distribution levels. Thus, the middle and

high sectors receive compensation for the taxes they pay, even when these are levied in accordance with a progressive system.

The fact is that the determination of the nature and scope of the concrete measures which should be taken to improve income distribution depend largely on the particular economic, social and political conditions of each country. It is, however, possible to indicate some basic aspects or principles which hold true for the different situations to be observed within the economic and social system prevailing in the region.

One of these aspects concerns the so-called 'distribution struggle'. Any measure tending to improve the participation of a social sector or group will bring a reaction from the other sectors who consider themselves adversely affected by it, thus frustrating the aim of improving the distribution. This is what happens, for example, when a wage increase is simply passed on to prices by the entrepreneurs so as to maintain their share of the real income.

The second aspect concerns the relations between income distribution and economic growth. Clearly, the redistribution of income in favour of sectors which have a lower propensity to save than other sectors can finally result in a drop in accumulation and a subsequent decline in the economic growth rate.

It is therefore necessary to design a policy which, while tending to reduce the tremendous differences in disposable income between the various social groups, will promote increased accumulation and thus raise the production capacity and the efficiency of the economic units. What is involved is the reconciliation of better income distribution with faster economic growth, so as to avoid the frustrations to which much past experience bears witness. Naturally, various kinds of policies can be proposed in this context, provided that their end result is to contain or reduce the consumption of the upper groups, which concentrate in their hands a large proportion of the income. This would increase the resources available for investment in physical and human elements and promote more employment at higher levels of productivity and income. In addition, of course, institutional and structural reforms are

needed in respect of other basic aspects such as access to the land and agrarian reform.

The eradication of poverty situations within a reasonable length of time has more concrete significance than the proposals regarding the improvement of income distribution, which in reality are of broader scope and incorporate the objectives concerning poverty.

The magnitude of poverty situations may be associated with two basic elements: the size of the average income of the society as a whole, and the family distribution of that income. In countries with low per capita income, a high proportion of the population generally have incomes below those considered necessary for satisfying their essential needs. In contrast, the proportion of poor is usually smaller in societies with higher per capita income.

The investigations which have been made, albeit on the basis of incomplete data, seem to show that the proportion of poor in the total population tends to go down with economic growth, but because of the high rate of population increase this reduction does not necessarily mean that poverty is reduced in absolute terms. The faster economic and social growth which it is proposed to achieve would further the process of incorporation of the economically active population into activities of higher productivity and income, but because of the seriousness and magnitude of poverty situations the process of absorption would be relatively slow: hence the need, for reasons of equity and social justice, to complement the strategy with a specific programme designed to tackle the solution of this problem within a more reasonable length of time. It is worth bearing in mind that in the next two decades rural out-migration will help to transfer poverty from the country to the city, although poverty situations will undoubtedly continue to have an appreciable incidence on low-productivity, low-income family farms and among landless agricultural workers.

The objectives of accelerating economic growth, improving income distribution, eradicating poverty situations and promoting the economic and social participation of all sectors of society will exert strong inflationary pressures and cause imbalances of undesirable size and nature in the external accounts because of

the expansion and changes which will take place in domestic demand and imports, in addition to which there will be the persistent increase in service payments on the accumulated debt.

Consequently, it will be necessary to plan action in the economic and financial field in such a way that, while promoting the sought-for changes, it will avoid or control inflationary pressures, which, as everyone knows, would imperil the achievement of the economic and social programme and would particularly harm the groups with the lowest income.

The effort made in this respect will have to be particularly intensive in those countries which traditionally suffer from chronic inflation, but in any case, all the countries will be affected by world inflation, which seems to be getting worse and spreading more than expected.

In order to strengthen the foundations of the national economies and establish more equitable trade relations with the exterior it will be necessary to make profound changes in the structure of trade aimed at reducing trade imbalances and projecting into external relations the changes in production and technology which take place in the structure of the economy as a whole. In addition, a suitable amount of external financing is needed on terms which back up the national development effort.

This development effort depends fundamentally on the mobilization of domestic resources, but in order to secure more efficient use of those resources international economic co-operation is needed, especially in order to facilitate the access to markets of manufactures with growing technological content. These external components of the strategy are all the more necessary now that there is a recrudescence of protectionist measures on the part of the industrialized countries and most of the external financing comes from private international banks on less favourable terms than those offered by multilateral financial institutions.

Measures must be taken to ensure the real and active participation of the entire population in all aspects of the development process. Steps must be taken to establish or improve national machinery to ensure that women enjoy

full equality with men with a view to their integration into the development process, which is an important objective for the countries of the region. Within this framework, measures must be promoted to guarantee women more participation in the economic, political, social and cultural life of the region and to put a new value on the role of Latin American women in society, seeking to improve their social image. All the countries should also assign high priority to the objective of mobilizing and integrating young people in the development process.

Within the framework of an integral development strategy, it is also necessary to consider the environmental dimension. To this end, some basic aspects of the relation between the environment and development should be emphasized: (i) the natural and artificial biophysical environment—in short, the environment—is the material system supporting life in society, which provides mankind with the ground and infrastructure for the conduct of human activity, the materials and energy needed for his reproduction and development, and the means of absorbing the waste he generates; (ii) society and nature are mutually adapted to each other through socio-economic processes, human settlement, and scientific and technical knowledge; (iii) the natural ecosystems can be altered and specialized by Man in order to increase their productivity, but at the risk of reducing or destroying their capacity for regeneration; and (iv) development is really an advanced state of transformation of nature into a contrived and artificial environment.

To the extent that this is properly understood and taken into account in planning and practical action, it will be possible to take full advantage of the potential of the environment as one of the fundamental bases for achieving the objectives of development. Many features of past development patterns, however—and also of the current style of development—are limiting the capacity for action and increasingly affecting those key functions of the environment, so that they represent severe limitations for a proper self-sustaining development process both from the point of view of produc-

tion potential and from that of living conditions, especially for the poorest sectors.

Policies designed to harmonize the economic and social objectives of development with the ecologically sound management of resources and the environment must take careful account of the wide variety of ecological, cultural and socio-political situations and conditions in the countries of the region. As the diversity of environmental problems and potentials has only come to be fully recognized in recent years, an extensive and urgent task of diagnosis and conceptual, methodological and operational development lies ahead in order to incorporate the environmental dimension into an integral development strategy.

B. THE ACCELERATION OF ECONOMIC GROWTH AND ITS REQUIREMENTS

1. *Economic growth prospects and the definition of a normative target*

The need to step up the economic growth of the Latin American countries in the context of an integral strategy aiming towards an equitable distribution of income and greater social wellbeing for the entire population arises from, among other things, the scale and seriousness of the social problems which will be aggravated by the rapid growth of the economically active population.

The productive incorporation of the available labour force will obviously call for much more dynamic economic development than the region has enjoyed in the past, and certainly much higher than the average for the second half of the 1970s. It should be borne in mind that the acceleration of economic growth is accompanied by an acceleration of the growth in the product per person employed, as a result of the progress which must take place in the transformation and development of new forms of production. As is well known, during this process the amount of capital required per person employed increases, and there is a considerable rise in the volume of output needed to absorb the same amount of labour.

This raises serious technical and political problems with regard to the definition of a quantitative economic growth target, as for this

purpose it is necessary correctly to assess the internal and external conditions currently affecting the course of economic activity and subsequent trends in given areas with a special impact on the rate of economic development.

The usefulness of establishing a quantitative target for the countries of the region as a whole may be called into question, particularly in the climate of instability and uncertainty prevailing with regard to major growth variables or factors. However, the establishment of quantitative targets and the study of their various implications is highly useful because they shed light on the size of the growth rate required, the nature and scale of the efforts to be undertaken, and the depth of the institutional and structural reforms to be carried out at the national and international levels. In addition, a quantitative target represents a basic element for judging or appraising the progress made towards established goals. It is therefore necessary to distinguish clearly between an appraisal of economic growth prospects and the determination of a normative or indicative growth target. Consequently, we shall first examine some aspects which make it possible to weigh up growth prospects, and then the more important factors of a normative target.

In studying the immediate economic growth prospects of the Latin American countries as a group, it is first necessary to distinguish between the oil-exporting and the non-oil-exporting countries. It is estimated that the real prices of fuels will continue to improve and that consequently the oil-exporting countries will enjoy steadily favourable terms of trade, so that the external sector will not represent a constraint for their development process. On the contrary, they will strengthen their import capacity, their economic growth and their ability to imbue their economies with a social orientation.

The non-oil-exporting countries will enter the 1980s in patently unfavourable conditions, with extreme vulnerability to external variables which will essentially continue to restrict their possibilities of maintaining or raising their economic growth rates.

The following are among the aspects which must be taken into account:

(i) the degree of external indebtedness, and above all the burden of the financial services, which are very high in relation to the domestic product and current export earnings. This situation varies considerably from country to country;

(ii) this external debt has largely been contracted with private international banks on "hard" terms, and the machinery through which the capital flows are channelled is facing difficulties which may hinder its continued use in the near future;

(iii) the economic growth prospects of the industrial countries with which the region has the bulk of its economic and financial relations are clearly unfavourable; their growth rate will be extremely low in the early 1980s, perhaps rising subsequently but nevertheless remaining below pre-1973 levels;

(iv) this will weaken the demand for goods from the developing countries, and the situation will be still worse if protectionist measures are adopted or increased in the industrial countries; and

(v) this is all compounded by the relentless effect of rising real oil prices on the balance of payments of the importing countries.

In these circumstances, the prospects of higher economic growth for the group of non-oil-exporting countries as a whole are unfavourable, at least in terms of the achievement of a desirable target. This is due not so much to internal restrictions, which could be overcome by suitable policies (although it must be recognized that they are of major significance for some countries), as to the bottlenecks and vulnerability stemming from external variables. The question therefore arises of the extent to which the economic growth rate of the Latin American countries depends on the economic growth of the industrial countries and of the world economy. In this connexion, it may be said that in the framework of existing relations there is a high degree of structural dependence, whose effects were examined in the preceding chapter.

During the 1970s, the economic growth trends of the Latin American countries were more or less parallel to those of the industrial countries as a whole, although considerably higher than the latter. This means that the

countries of the region were able to keep up their economic growth rate and avert a major contraction or economic recession which might otherwise have occurred.

This was the consequence of the production capacity acquired by those countries, the higher level of integration and diversification of their economies, the growth of their exports and, particularly, the availability of external financing which enabled them to cover their rising balance-of-payments current-account deficits and even build up international reserves. It is well known, however, that this growth model based on external financing runs into serious restrictions after a time on account of the accumulated debt and the burden of servicing it.

In establishing a quantitative growth target for the 1980s, account must be taken of the salient features at the outset as well as of future prospects. However, the point is not to extrapolate those trends but rather to review the changes which should take place in domestic and external conditions and policies in order to boost the dynamism of economic development. The aim is therefore to establish a target or objective, normative or indicative, which will be reasonably viable if structural and institutional changes take place and policy measures forming an integrated action programme are applied.

In this connexion, the new IDS establishes an annual growth target of 7% for the gross domestic product of the developing countries as a whole, which would signify a per capita growth of 4.5%.

In the prospective studies undertaken by the Secretariat, various economic development scenarios for the 1980s have been examined. From these, a normative growth scenario was chosen which includes the following elements:

(i) faster economic growth than indicated by the projections of past trends, so that, with the use of suitable policies, a positive contribution will be made to solving the problems of unemployment and the eradication of extreme poverty;

(ii) a minimum target of doubling the per capita product within 15 years, as a general norm for all countries; and

(iii) the materialization of the high economic growth potential to be found in some

countries, so that in some cases the growth target may be higher than the above-mentioned minimum.

The annual growth target for the region as a whole would be somewhat over 7%. This means, for Latin America, an annual economic growth rate roughly equal to that of the first four years of the 1970s. There is a major difference, however: during that period growth was primarily concentrated in a very small number of countries, whereas what is now postulated is faster growth in all the countries of the region.

In short, the target of doubling the gross domestic product of the region as a whole by the end of the 1980s, which would signify an annual growth of a little over 7%, may be considered reasonably justified. However, in view of existing circumstances the growth rate may be lower than that average in the early years of the decade and somewhat higher in the second half.

2. *Saving and investment*

To achieve this growth target will call for a substantial rise in investment: the investment/product coefficient will have to rise to over 25% for the region as a whole. In principle, this should not present an unsurmountable obstacle, because the region has shown, particularly in boom periods, a striking capacity for promoting large-scale investment. Domestic saving will have to rise appreciably if external financing is to retain reasonable proportions with respect to investment and exports, as would be desirable.

It should be noted, however, that the conditions and trends which this scenario comprises vary from country to country in the region, and in many of them the acceleration of the growth rate will call for much greater relative increases in investment and domestic saving, and thus a much greater effort, than in others. Furthermore, the relative importance of external financing, in comparison with the product and investment, will obviously also differ significantly from country to country.

3. *Growth and sectoral structure*

The output of the agricultural sector will have to grow more rapidly than in the past, to

reach an annual rate of over 4%, and perhaps even 4.5%, for the region as a whole. This target for agricultural output is in keeping with the global growth rate of the product, and is essential to satisfy the growth of domestic demand (stemming from higher incomes and the aim of eliminating extreme poverty or destitution) while increasing the region's exportable surplus.

Various studies suggest that the growth of agricultural production may feasibly be boosted by increasing the productivity of cultivated land more than previously; but at the same time it is very important also to expand the cultivated area.

The dynamism of industrial development will have to be relatively intense, with an annual growth rate of a little over 8.5%, representing an industrialization process that would be much more rapid and profound than in the past. It will have to extend to new activities with a higher technological content, calling for major capital investment in the branches of essential intermediate goods and producer goods. In this new stage, industrialization will have to take place in more economically efficient conditions, as the materialization of this growth scenario calls for a considerable rise in the trade in manufactures among the countries of the region and in exports to the developed countries and to other developing regions.

This growth scenario also assumes significant sectoral and technological changes in the Latin American economies. The share of the agricultural sector will decline appreciably, while that of the manufacturing sector increases. The pace of this process and the indexes of the sectoral composition of the product will vary among the countries, which will continue to show major differences in their level of development during the next twenty years.

There will also be a sharp rise in the product per person employed, reflecting the intense process of technological change spreading in the national economies, which will be more or less generalized among the various groups of countries; it will be stronger in manufacturing than in the agricultural sector and in the economy as a whole. This difference in the growth of productivity between the economic sectors and within them raises serious prob-

lems which must be borne in mind when formulating policies designed to improve national income distribution.

Despite the rise in productivity indexes, greater absorption of labour will be fostered, which should equal the growth of the economically active population for the region as a whole. This will not solve the problem of unemployment within a relatively short period, however, on account of the magnitude of underemployment and open unemployment. Nevertheless, it will lead to higher productivity and income levels for that segment of the population. The employment structure should change significantly, not merely in terms of sectoral distribution but also from the standpoint of the nature of jobs and their skill levels. This therefore points to the need for training the economically active population: a matter to which some countries will have to pay particular attention.

4. The energy problem

The analysis of energy needs is a matter of particular concern on account of their great impact on technological and economic policy strategies in the development process. In the present circumstances, this is of course a key aspect which must be taken into account in weighing up the feasibility of development options, since the basic and complementary nature of energy as a factor of the production of goods and services makes it one of the determinants of the development style of the industrial era.

It is estimated that total energy consumption measured in terms of use of primary sources has grown over the long term (since the war) at an average annual rate of 5.5%. Thus, in the region as a whole the rise in energy needs went hand in hand with the growth of the gross domestic product. Consumption of commercial energy grew much more rapidly (by almost 7% per year) on account of the replacement of traditional sources.

As a consequence of the rising real prices of oil and natural gas products, which account for over 75% of the region's total supply of modern energy, it may be expected that the elasticity of demand with respect to the product will

decline and that policies will be applied deliberately to hold down energy consumption of specific sectors or for specific purposes. At the same time, however, it is obvious that the economic growth rate and the dynamism of productive and technological change inherent in the economic development scenario under consideration necessarily imply an appreciable rise in the product per person employed and a higher energy input in accordance with known patterns of technology. Thus, in the absence of alternative styles of development, it may be assumed that despite whatever energy-saving measures are taken, energy needs will rise more rapidly than in the past, and are likely to double in a period of ten to twelve years in accordance with the normative economic growth target.

The region as a whole is a net energy exporter to the rest of the world. As was stated earlier, however, the exportable surpluses have been dwindling appreciably. This situation may change to some extent with the new export flows, primarily from Mexico. Naturally, these trends are due not only to the lack of dynamism in the production of primary energy sources, but also and perhaps primarily to the resource-conservation policy followed by some countries, such as Venezuela. At present, only five countries are really net exporters of hydrocarbons, while all the others are net importers, although the degree to which they depend on imports varies.

At the national level the situations differ considerably. On the one hand, the oil-exporting countries have strengthened their financing capacity and their possibilities of increasing their economic development will be even greater as their terms of trade continue to improve. On the other hand, the group of non-oil-exporting countries face different prospects. In some, the importance of external fuel supplies in projections of total demand, and the impact of their cost on current foreign exchange earnings, are relatively low. Their demand for imports of hydrocarbons should rise to a varying degree according to the growth of the national product and the results of the energy measures and policies adopted. Their balance-of-payments problems may worsen but most probably will not become an unsurmountable

obstacle hindering more severely than any other factor the objective of raising the economic growth rate.

On the other hand, in another large group of countries of varying size, the degree of dependence and the relative importance of the costs of imports are much greater and are rising from day to day. In many of these countries the energy problem is extremely important and the proposal of economic growth scenarios cannot be divorced from energy prospects and programmes. In these countries, energy saving, the replacement of hydrocarbons by other traditional and non-traditional energy sources, the reduction in dependence on oil imports and the growth of exports to increase the availability of external purchasing power must be considered necessary objectives of development strategies and policies. In some cases they are being pursued with great vigour, with an attempt to replace oil imports by local biomass energy to some degree.

C. THE CHANGES AND TRANSFORMATIONS WHICH MUST TAKE PLACE IN EXTERNAL ECONOMIC RELATIONS

1. *Import needs and the capacity to buy abroad*

From the mid-1960s until 1974 the volume of imports grew rapidly and to a greater extent than the domestic product in most of the countries of the region. This occurred in the context of structural changes tending towards greater openness to the exterior, a diversification of exports, greater use of external financing and active participation of transnational enterprises in the economy of the countries of the region. Subsequently, on account of the serious balance-of-payments problems of the non-oil-exporting countries, the pace of imports declined to such an extent that in some cases the level dropped in absolute terms. Recently, however, they have tended to recover.

CEPAL has also studied the possible projections of imports in a dynamic growth process, taking into account various aspects affecting the process and particularly the correlation between imports and the product and investment. This analysis suggests that import needs

will grow in almost all countries, and for the region as a whole, at a somewhat higher rate than the growth of the gross domestic product. In the normative scenario under consideration, imports should grow at an annual rate of 8%. Thus, by 1990 the value of imports of goods and services at constant 1975 prices will be 2.6 times higher than the average for the three-year period 1976-1979. Their structure will continue to be dominated by intermediate and capital goods, with relatively greater growth in the latter.

It is clear, then, that external purchasing power must expand much more than in the past in order to be able to cover this demand for imports of goods and services. This growth will depend on three major sources: (i) the volume and diversification of exports; (ii) the trends in the terms of trade; and (iii) the magnitude of external investment and finance. Thus, for example, assuming that the terms of trade remain at 1979 levels and that net external financing—equivalent to the deficit on current account of the balance of payments—in the 1980s maintains a similar relationship with respect to the domestic product as was true of the countries of the region during the 1970s, then for the region as a whole the income from exports of goods and services will have to rise in step with imports (8% annually during the decade) and by 1990 net external financing will represent an average of 2.8% of the gross domestic product and about a fifth of exports.

Export needs will naturally be smaller if net external financing is larger, and this will also be true if the terms of trade improve. It has been calculated that exports of goods and services would rise by 7% annually if net external financing increased even more during the 1980s to represent 4.4% of the gross domestic product by 1990. In these circumstances, the servicing of the external debt and the profits on foreign investment would reach very high proportions of current export earnings, and the ensuing situations would be very difficult to handle in practice. Furthermore, in the resulting economic growth structure the domestic saving coefficient would tend to decline with the rise in economic growth. Naturally, this scenario could improve appreciably if there were a favourable change in the terms and con-

ditions of an effective transfer of real resources to the developing countries.

2. The pace and structure of exports and balance-of-payments problems

It is therefore necessary to examine the projections of external demand in relation to these export needs of Latin America, as well as the nature and scope of the structural changes to be promoted in the international order in order to foster the growth of trade of the developing countries. Various studies have been carried out by CEPAL and other institutions on the basis of a variety of hypotheses concerning world economic growth and particularly the economic growth rate of the industrial countries.

One of these studies, essentially based on historical relationships, gives the following results: if world trade expands at an annual rate of about 7%, and the region follows a trend similar to that of the past, Latin America's exports will grow by roughly 5% annually. Consequently, the region's share of world trade in primary commodities and fuels will continue to decline, while its share of the trade in manufactures will grow at a similar rate to that of world trade in such products (8% to 9% annually).

However, as has been stressed above, in the 1970s the Latin American countries made great efforts to alter the historical trend by following export promotion and diversification policies. In the last years of that decade, the trend began to change in major respects. Thus, it is interesting to note that in 1977-1980 Latin American exports grew at an annual rate of nearly 8.9%, despite the drop in the volume of Venezuelan exports.

This suggests the possibility that Latin American exports may be more dynamic than was the case until the mid-1970s. Clearly, the proposed acceleration of economic growth, as well as the changes in the production and technological structure, also call for changes in the rate and structure of the exports needed to bring them into being, and substantial alterations in the world economy tending towards the shaping of a new international economic

order. It cannot be assumed that external financing will be the main source for covering the balance-of-payments deficit which would result if exports in the 1980s grew at the historical rate prior to 1974. This would not be viable on account of the size of the deficit and the frustration of domestic saving which accompanies a policy of that kind. What is required is international co-operation and profound changes in the policies of the developed countries in order to facilitate the growth and diversification of exports above the levels of those past trends.

Other related aspects to be taken into account are the improvement and stability of the external terms of trade and the possibilities of holding down imports without affecting the postulated economic growth rate, and fundamental changes in the sources and conditions of external financing so that its share may increase above expected levels.

The growth of exports should be examined in relation to their composition and the markets to which they have access. Dealing first with their growth rate and structure, it may be recalled that during the 1970s the process of export diversification underway since the end of the previous decade grew stronger, and that this took place in the primary commodity branches together with a growing share of manufactured products. Nevertheless, for the region as a whole, exports of manufactures represent only 20% of the total, and are concentrated in the large and some medium-sized countries. Naturally, this export structure must change in favour of a greater share of manufactured goods, including product lines with more advanced technological content, in a way that is consistent with the transformation of production and technology accompanying the economic development process and with a development strategy which seeks to retain some degree of external openness in order to favour the most efficient allocation of resources and the growth of productivity. A similar line of reasoning, particularly in connexion with resource endowment, applies to the greater dynamism to be achieved by commodity exports with a rising degree of processing; in this case there is also the important fact of the great significance of such exports in the regional to-

tal, particularly for the medium-sized and small countries.

The considerable increase required in Latin American exports in the 1980s must therefore include the various branches of primary commodities with a higher degree of processing, new export flows, and increased and more diversified manufactured products which represent the most dynamic flows of international trade. It is well known that Latin America's share of the primary commodity trade has been declining; it would suffice for the region to retain a specific proportion of that trade, and be allowed access to the markets of the industrial countries, for total commodity exports to increase at a significantly higher rate than in the past. Nevertheless, it is manufactures that should become the most dynamic lines of Latin American exports.

The breakdown of the value of total Latin American exports in recent years is as follows: about two thirds was accounted for by sales to the developed countries, somewhat less than 20% by sales to Latin American countries, a little less than 10% by sales to the socialist countries and 4% by sales to other developing areas. In these circumstances, to achieve the export targets required to underpin the region's economic growth will obviously depend heavily, particularly at first, on greater access to the industrial countries, which currently absorb such a high proportion of them. This in turn will depend on the trends in those countries' external demand, and particularly on the policies to eliminate the well-known restrictions of all kinds limiting access to their markets, as well as policies to restructure their domestic economic activity, promoting the basic conditions for a new expanding position for the developing countries in the world economy. In this connexion, the immediate prospects are clearly unfavourable, on account of the slow rate of economic growth in the industrial countries and the resurgence of protectionist measures.

The above-mentioned studies have also shown quite clearly that despite the positive results which may be achieved in terms of increasing and diversifying exports to the developed countries, the growth of intra-regional trade appears to be a necessary condition for

stepping up the development of the Latin American countries. This trade has been growing more rapidly than trade with the rest of the world. In the early 1960s, exports to the region represented only 8% of the total, as against 17% today;¹ furthermore, the composition of these trade flows differs from that of trade with the rest of the world, as they consist predominantly of new branches of intermediate manufactures and capital goods.

In addition, the growth of trade with the socialist countries and with other developing regions should also be a complementary objective in order to make use of the enormous potential offered by those areas. This objective is included in national policies, and some interesting progress is being made.

The fluctuations and worsening of the terms of trade have important—favourable and unfavourable—effects on the results of the balance of payments and the course of investment and real income in the Latin American countries. In CEPAL's prospective studies, it has been assumed that the terms of trade remain constant at the 1979 level. The relative position of those indexes during the 1970s was described above. It should be added that, with respect to 1979, the terms of trade tended to improve in 1980 but very much worsened for the non-oil-exporting countries. The prospects for the evolution of the terms of trade are far from encouraging, particularly in the short and medium term, on account of the rising cost of imports from the industrial countries, the higher price of fuels, and instability and uncertainty with regard to commodity prices. In proportion as the terms of trade decline, the balance-of-payments problems will grow worse. Hence the capital importance attached by the Latin American countries and the developing countries in general to achieving sta-

ble real prices for commodities at remunerative levels in the international market.

The model used in this economic development scenario assumes that imports will grow relatively faster than the gross domestic product. The elasticity of projected imports with regard to the product is less than in the early 1970s; however, the model has a relatively open growth structure compared with the situation in the past, when the so-called import substitution model prevailed. This trend towards greater openness has been strengthened by foreign trade developments in the last four years.

The question arises of whether it would be possible to achieve the proposed economic growth with a lower import elasticity than appears in these studies. This question is of enormous importance at present, given the rise in protectionism and the developed countries' resistance towards the adoption of effective measures for expanding trade with the developing regions within a process of restructuring the world economy. While it is impossible to give a precise technical answer on the basis of the global analysis under consideration, some general comments may be made on the issue. There are grounds for believing that in the framework of the prevailing style of development, the import elasticity shown by these quantitative studies may be considered reasonable from the standpoint of a given growth structure with a specific degree of openness; thus, it might be considered that at least the large countries and some medium-sized countries, given their industrial capacity and their larger domestic markets, are in a position to make some progress in import substitution of essential intermediate goods and capital goods. There can be no doubt that a policy of this kind should be set in the context of the growth of intra-regional trade, which would provide a more efficient solution than the "squeezing" of the import coefficient at the national level.

¹These figures include only Haiti and the Dominican Republic from among the countries and territories of the Caribbean.

Consumption in the new Latin American models

*Carlos Filgueira**

The main objective of this article is to study the role played by consumption in the economic and political strategies followed in recent years in the countries of the Southern Cone of Latin America. The author places at the centre of his analysis an apparent paradox whose significance he seeks to discover: on the one hand, these societies display a considerable increase in the consumption of durable goods and other 'sophisticated' articles, primarily acquired through imports, and this is usually presented as a manifestation of the success of such strategies, but on the other hand, the same societies also display both growing inequality in the distribution of wealth and income and a deterioration in the degree of coverage of the basic needs of the poorest strata.

In order to elucidate this paradox, the author begins with a critical analysis of the significance which consumption usually has in economic theory and emphasizes the need to take into account its sociological aspects, which makes it an important interface between the two disciplines. He goes on to explore the statistical information available in order to describe the patterns of concentration and dissemination of the consumption of durable goods, especially in the case of Chile, and finally gives a summary of his main conclusions. Among the latter he suggests that the new and sometimes paradoxical patterns of consumption adopted by the various social strata in these societies can only be understood within the context of global tendencies furthering the creation of forms of social organization in which the relative absence of other accepted manners of personal realization and social participation give 'modern' consumption a central role in both personal life and in the principles of social integration.

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I

Introduction

1. In recent decades, Latin America has experienced profound changes in its styles of life and patterns of consumption. A sustained process of dissemination of material objects characteristic of the industrialized societies makes it difficult now, at the beginning of the 1980s, to recognize Latin America as the same region which existed 30 years ago.

Without doubt, this process has not been an isolated phenomenon; in reality, it forms part of a much more general process of economic development and social modernization which the region has displayed above all since the end of the Second World War.

As repeatedly pointed out by CEPAL, although the economic growth of the region is not sufficiently high and the prevailing styles of development are not appropriate for solving the problems of the extreme poverty and precarious living conditions of great sectors of its population, Latin America as a whole has shown one of the highest indexes of growth in comparison with the other regions of the Third World.

Other simpler and well-known indicators also show the magnitude of this process. The urban growth registered in only three decades means that one of the characteristics traditionally attributed to the region —namely, its predominantly rural nature— is tending to disappear. Furthermore, the changes which have taken place in education over this period represent, like the progress in urbanization, one of the most spectacular growth processes ever recorded in the history of any society during such a short period. Finally, with regard to the social structure, the expansion of the urban middle classes in recent decades has been so great that in the 1980s some countries are attaining and even exceeding the proportions of middle class existing in the developed countries, while others are rapidly approaching such levels.

The dissemination of these new styles of life and consumption is closely associated, then, with the increasingly urban and tertiarized nature of the social structure. The new habits of modern consumption, in their turn, are increasingly determined by the lead-

ing role played by the expanding middle classes. As well as adopting patterns of behaviour similar to those of the middle classes in the developed countries, these life styles are also propagated towards the lower strata.

With the shortening of physical and cultural distances brought about by the expansion of the physical means of communication, and above all the mass media, there is practically no physical or social space, no matter how isolated it may be, which has not to some extent undergone the impact of the stimuli of modern consumption.

This has led to changes in the most deeply-rooted habits in the traditional spheres of consumer behaviour: food, housing and clothing. The forms of recreation favoured increasingly call for the possession of material goods, forms of social relationships are modified as a function of goods, and at the same time we observe the most varied family strategies to try to meet the new preferences and tastes. The expectations and aspirations for the life cycle are redefined as a function of consumerist priorities, and this leads to changes in basic motivations towards work, the family and the children.¹

In particular, since material goods constitute the most manifest part of this culture, they increasingly acquire the character of a veritable system of information which gives significance to everything surrounding the individual. More and more, there is a tendency to work and live as a function of consumption.

Not all the countries of Latin America have experienced this process to the same depth or with the same rapidity, however. As the region does not form a single unit, but is a heterogeneous set of countries, the expansion of the 'consumer society' has taken place in very different manner in each particular case.

As a general rule, the sustained process of dissemination of patterns of consumption referred to above integrated the dominant styles of

Latin American development, and in so far as these styles had continuity, so too did the dissemination of the consumption-oriented models. This dissemination did not always follow a continuous and gradual process, however.

Thus, in the 1970s there were some Latin American countries where the dissemination of the new styles of consumption was abruptly accelerated by a sharp break with the formerly prevailing models. The countries of the Southern Cone, where stabilization experiments are being carried out, show how, in a brief period, the break with the traditional policies regarding styles of development led to a profound transformation in all aspects of social, economic and political life.

With regard to styles of consumption, these were affected by the confluence of various factors which tended to generate conditions favourable for the emergence of a previously unknown consumer society. The growing concentration of income deriving from the stabilization models, the economic openness favouring the importation of cheap consumer goods, and the general ideology of the new systems proclaiming consumerism as a legitimate priority objective tended to bring about drastic alterations in styles of life and consumption.

The economic literature has given sufficient demonstration of the significance which the economic reorientation of the new stabilization models had in these changes. It is not merely a question of economic measures and policies, however. In reality, the new orientations comprise a vast concept embracing social morality and solidarity, based on the resurgence of individualistic liberalism, reaffirming the principle of the supreme importance of the consumer, and taking up once again the idea that the State can be dispensed with in many respects.

The new market economies are thus something more than economies: they are societies where material, economic and political interests cannot be separated from the ideas which seek to give them significance as well as strengthening and justifying them. From this point of view, they are as real as the interests themselves.

Consequently, the phenomenon of consumerism in the new models can hardly be

¹J. Graciarena, "Creación intelectual, estilos alternativos de desarrollo y futuro de la civilización industrial", study presented at the Symposium on Cultural and Intellectual Creation in Latin America, organized by the United Nations University and the Institute of Social Research of the Autonomous National University of Mexico, held in Mexico City from 23 to 28 April 1979 (mimeographed version, 1980).

viewed as displaying unbroken continuity. This also helps us to understand better why the problems of the 'consumer society', traditionally identified with problems peculiar to the developed countries, are acquiring growing importance and new connotations for Latin America.

2. Because of the interest of certain academic and intellectual circles and the concern of international organizations and forums, some of the old problems raised thirty years ago by Galbraith in his study on the affluent society have assumed new vitality and significance.²

A decisive factor in this was the questioning by the Rome Club a few years later of the consequences that the exhaustion of natural resources would have for the growth model of the industrial society. Since then, the resulting discussion has given rise to the most varied proposals, although the idea which has gained most ground is that the initial postulation regarding the exhaustion of resources was not really a problem of technology or production in the strict sense.

Numerous subsequent studies have shown that there are various logically possible alternative worlds in which the social, political and productive organization could successfully cope with the problematical destiny of the 'industrial society'. Though they were utopias in some cases or theoretical exercises in others, both types of approaches had the virtue of displacing the problem of the form of exploitation of natural resources towards its social and political determinants. In all cases, however, the consumerist or 'consumer society' characteristics on which the spoliatory forms of technology are based were always at the centre of the analyses.

The studies on styles of consumption in Latin America could not remain outside this controversy either, and were thus deeply influenced by the problems of the more developed countries.

It could even be affirmed that because of this the analysis of the dissemination of the consumer society in Latin America has another

character. It is not possible to avoid the feeling—shared by many—that the industrial civilization is reaching the end of an era and closing a cycle, thus demanding in an urgent and inescapable manner for changes of considerable magnitude to be made.³

Naturally, this return to the study of consumption as influenced by the way in which the problem is defined in the developed countries raises certain difficulties. Firstly, for obvious reasons it raises difficulties deriving from the different contexts. The term 'consumer society' is fully applicable to societies with mature industrial economies, but it cannot automatically be extended to the countries of the Third World. Secondly, the critical nature of the judgement on consumerist styles has frequently emphasized moral censure, thus turning itself into a subjective value judgement rather than an analytical category. Finally, there is the difficulty that the terms 'consumer society' and 'consumerism' are vague and globalizing concepts.

The 'consumer society', 'superfluous consumption' and other similar terms which are frequently used in the literature rarely seem to have a well-defined meaning. In certain cases they seem to refer to general ways of denominating a particular type of civilization, the 'industrial society'; in others, they appear to be a characterization of the essential features of a particular system (the capitalist system), and in still other cases, certain authors seem to regard them as morbid or pathologically deviated manifestations of something which need not strictly be so.

Consequently, it is appropriate to raise some queries regarding these denominations. With regard to the consumerism which is supposedly characteristic of contemporary society: is it a mere superficial phenomenon of the pre-

²J.K. Galbraith, *The Affluent Society*, Boston, The Houghton Mifflin Company, 1958.

³M. Wolfe, *Nuevas reflexiones sobre el desarrollo* (E/CEPAL/DS/VP/182), 1978; J. Medina Echavarría, "Latin America in the possible scenarios of détente", *CEPAL Review*, No. 2, 1976; Dag Hammarskjöld Foundation, *Another Development*, Uppsala, 1979; *Proposiciones para un nuevo orden internacional*, Rome Club, Guanajuato, Mexico, 1975; United Nations, *Declaration and Programme of Action for the establishment of a New International Economic Order*, 1974; R. Falk, *A Study of Future Worlds*, The Free Press, 1975.

vailing models, or is it rather a structural characteristic? What are its links with the productive structure, investment and savings? How deeply rooted are the styles of consumption and what are the dynamics of their change? What are the conditions, factors and requisites needed for their change?

Answering these queries is not an easy task; it involves options of a theoretical nature which are not yet sufficiently clear in the existing literature, and the paths opened up for future research depend on which of the alternative answers is selected.

3. The consumerist ethos originated in the advanced capitalist countries and gradually spread within them and outside them; it steadily incorporated new social sectors and classes and penetrated at various rates into the societies of the Third World.

The present situation of the developed countries thus reflects the full sway of a consumerist ideology which, through a long-standing process, has come to orient their growth in a certain way; it can therefore be asserted that their present problems are the result of their own maturity.

This situation cannot, of course, be divorced from the way in which the notion of consumerism or the 'consumer society' is introduced in Latin America.

Since the emergence and significance of these concepts is conditioned both geographically and ideologically, the literature on consumerism has reflected above all the specific problems of the advanced societies. It is therefore no accident that consumerism has recently acquired a significance related to the problems of the external and social limits of growth.

For the theory of the physical limits, waste, as a pathological expression of the modern style of consumption, has thus been linked with the spoliatory nature of the techniques and forms of production, while as regards the social limits, these have been expressed by the high economic cost and unproductive nature of the competition for prestige goods and the erosion of the basis of legitimacy and consensus.⁴

In the advanced countries waste was combined with exceptional economic growth and dynamism, however, whereas in Latin America and the Third World countries in general the situation was different, since there was waste with zero or scanty growth.

Hence, while in the more advanced countries the notion of consumerism assumed a significance in line with the interpretations of those countries' physical and social limits, in Latin America it also raises the problem of the limits which it imposes on accumulation.

From its earliest days, CEPAL has given priority attention to the problem of the imitation of modern patterns of consumption and the way in which these are related with economic development. Recently, this aspect has gained renewed vitality⁵ through the studies of Raúl Prebisch on peripheral capitalism.

It does not seem, however, that there has been sufficient adaptation of the concept of consumerism to conditions which, like those of Latin America, differ from those prevailing in the developed countries. At the conceptual level, there are still some major queries regarding what is meant by consumerism or the 'consumer society'.

If it is perceived as the expression of economic behaviour based on excessive consumption, on the satisfaction of 'superfluous needs' or the acquisition of 'luxury goods', one inevitably falls into relative and arbitrary value judgements which, even in the best of circumstances, can only describe but not explain the situation. It is very different, however, if consumerism is perceived as an articulated set of ideas and motivations which make up an ideology.

If consumption belongs to the order of the material world or the world of objects, consumerism —like Weberian asceticism— belongs to the order of values and ideas. It therefore only acquires significance when it is considered as a particular ideology or ethos.

It is not always, nor in all known societies, that material objects acquire the same decisive importance or the character of a primary moti-

⁴F. Hirsch, *Social Limits to Growth*, Cambridge, Mass., Harvard University Press, 1979.

⁵R. Prebisch, *Capitalismo periférico. Crisis y transformaciones*, Fondo de Cultura Económica, Mexico City, 1981.

vation for action. Nor are preferences always organized around material goods, as happens to the full in the industrial societies or the circles in underdeveloped countries to which this attitude has spread.

While some implications of the notion of consumerism as an ideology are probably obvious, it is worth referring to them.

It is clear, of course, that consumerism cannot be considered as a mere superficial phenomenon. Nor can it be considered as a

manifestation which has no life of its own, except as a reflection of the needs of the production structure, and much less can it be considered as a type of orientation which can easily be modified. It is even more important to note that consumerism thus defined is not restricted to the real behaviour of those privileged sectors or classes which have effective access to superior goods, but is also defined by the broader dissemination of the expectations and values which orient action.

II

Social factors in the dissemination of styles of consumption

An aspect which attracts the attention of sociologists is the way in which economic thinking has approached the analysis of the behaviour of the consumer, since until only a very few years ago individual decisions regarding consumption and preferences for certain consumer goods were considered as actions carried out independently of the decisions of others. No less surprising is another of the basic assumptions of economic theory: that the consumption attained at a given moment is reversible in time (Douglas and Isherwood, 1979).⁶

The wealth of practical knowledge amassed by advertising agencies, market research specialists and sales-minded businessmen regarding the incidence of social relations on consumption only began to occupy a significant place in the economic theory from the 1950s onwards.

Until then, many of the patterns of consumption and saving seemed to be irremediably irrational and erratic, inasmuch as the socio-psychological principles of consumer behaviour continued to be subject to the concept of the rational consumer, which assumed: (a)

relatively fixed and consistent preferences for perfectly established consumer goods; (b) a high degree of familiarity with products; (c) decisions determined only by income; (d) the possibility of substitution of determined products on the basis of relative elasticity; and (e) a type of individual behaviour independent of the behaviour of other consumers.

Few would try to maintain today that these basic principles of consumer behaviour are still fully applicable. The evolution of economic thinking in this respect has undergone successive changes as a result of the introduction of new principles and laws such as the principle of diminishing marginal utility of Marshall, the fundamental psychological law of Keynes, the theory of preferences of Pareto and Schicks, or the permanent income theory of Friedman, all aimed at establishing the foundations of economic behaviour by adding new hypotheses and more complex assumptions. In all cases, however, the search for more satisfactory assumptions for explaining value arose in fields other than that of economics. Indeed, it could hardly be otherwise, since the theory of value—as Durkheim maintained in his controversy with the economists at the beginning of the century—corresponds to an essentially social dimension. Material objects have value not only because of their intrinsic physical proper-

⁶M. Douglas and C. Isherwood, *The World of Goods*, London, Allen Lane, 1979.

ties but also because of the value socially attributed to them.⁷

At the end of the 1940s, the dominant interpretations regarding consumer behaviour were questioned by two alternative theses. O. Morgenstern and J.S. Duesenberry proposed new ways of understanding the dynamics of demand. In addition, in their writings they radically questioned the way in which conventional theory perceives the generation of needs and the way in which the latter are transformed into demand. Thus, from that time on the problem of the theory of value was here to stay.

O. Morgenstern⁸ and J.S. Duesenberry⁹ sustained in their writings that it was necessary to modify one of the essential assumptions of the static theory of consumer demand implicit in the dominant economic interpretation: namely, the principle of the independence of consumers. In short, the convictions of these authors led them to sustain that demand curves are not the result of the simple adding together of the behaviour of consumers considered individually. The principle of non-additivity fits in better with all types of consumer behaviour, not only that of individuals, but also of enterprises. This principle is based on the reciprocal influences of behaviour connected with competition, social interaction and forms of sociability, which are introduced as explicit factors explaining the "abnormal aggregate demand behaviour", and it was at this point that Duesenberry incorporated for the first time the notion of the "demonstration effect".

This represented the resumption of a line of interest already implicit although not fully developed, in previous studies which identified 'unexpected' or unclear forms of behaviour of this structure of aggregate demand. Thus, H. Liebenstein¹⁰ notes that Professor Melvin Reder, in his treatment of the theory of

welfare economics, claimed that "...there is another type of external repercussion which is rarely, *if ever*, recognized in discussions of welfare economics. It occurs where the utility function of one individual contains, as variables, the quantities of goods consumed by other persons" and goes on to say that "It can only be lack of awareness of the past literature that causes Reder to imply that this consideration has not been taken up before. Among those who considered the problem earlier are J.E. Meade, A.C. Pigou, Henry Cunynghame, and John Rae".

It was only after Duesenberry's formulation that the 'problem' and 'incongruencies' ceased to exist as such and instead gave way to a proposal for a revision of the basic theory. He thus made it possible for the first time to give systematic consideration to the social aspects, which had previously remained outside the conventional economic approach.

Duesenberry's theory of consumer behaviour really amounts to the first sociological formulation regarding consumption. The new approach to man as a social being was one of the most significant contributions made by the economic theory of the consumer, since the previous conventional economic theory had used assumptions on individual psychology which viewed the decisions to consume as operating in an atomized manner, segregated from society.

To this must also be added another subsequent complementary formulation which also represented a considerable theoretical advance. On the basis of the initial formulations of cultural anthropology, the notion of consumption as a relatively autonomous consequence of immediate income gave way to the notion of 'normal consumption', which is a term introduced by Margaret Reid (1934), but which was not incorporated into economic thinking until M. Friedman's formulation regarding 'permanent income'.¹¹

While in Duesenberry's formulation saving was a residual category resulting from 'what

⁷E. Durkheim, *Journal des Economistes*, Series 6, XVIII, 1908.

⁸O. Morgenstern, "Demand theory reconsidered", in *The Quarterly Journal of Economics*, February 1948.

⁹J.S. Duesenberry, *Income, Saving and the Theory of Consumer Behaviour*, Cambridge, Mass., 1949.

¹⁰H. Liebenstein, "Bandwagon, Snob and Veblen Effects in the Theory of Consumers' Demand", in *The Quarterly Journal of Economics*, vol. LXIV, May 1950, No. 2, p. 185.

¹¹M. Reid, *Economics of Household Production*, New York, 1934. M. Friedman, *A Theory of Consumption Functions*, Princeton, Princeton University Press, 1957.

was left over' after the decision to consume, for Reid saving is provision for the future and it is therefore not possible to understand consumer behaviour without knowing the long-term logic behind the saving/consumption complex.

Any family consumption strategy will therefore not be the result only of transitory income; it will be determined above all by the real or imaginary expectations, the attitudes and ideologies regarding family life, and the significance attributed to a socially conditioned life project.

With the concepts of 'normal consumption' and 'transitory and permanent income', the way is opened for a type of consumption analysis which is not based on an interpretation taking account of only one cause, namely, transitory income. Moreover, the idea is also asserted that once patterns of consumption have been adopted they cannot be easily modified by short-term variations in income.

1. *The demonstration effect*

In its simplest form, the demonstration effect is based on the theory that when individuals have knowledge of material or non-material goods or styles of life which are superior or perceived to be so, regardless of whether these are objects which satisfy old needs or create new ones, the probability increases that they will feel dissatisfied with their own levels. In proportion as their knowledge of these goods is expanded, and consequently also their knowledge of the symbols and values associated with their use, new needs arise and the demand for the consumption of such goods increases.

Thus, the demonstration effect operates from the top down through social mechanisms in which forms of social interaction, leadership and publicity play a fundamental role.

The form of social stratification possessed by contemporary society thus becomes the framework for the operation of the phenomena of dissemination of consumption aspirations and, consequently, special attitudes and forms of behaviour which penetrate from the top strata towards the lower ones. The greater the differences in level of living between the strata, the more obvious these differences are,

and the smaller the barriers of an ascriptive nature, the more efficient the demonstration effect is.

In certain societies, the demonstration effect tends to have greater force, as for example in modern society, where a number of factors join together (high physical mobility, low residential segregation, heterogeneous labour relations, external manifestations of behaviour, and social demonstration of one's own life style). Likewise, this effect will also be more vigorous when there are no social norms which lay down different rights and duties for different social sectors, classes or strata. Ultimately, as is well known, the demonstration effect implies 'unformalized social leadership' stemming from the upper levels of the social stratification structure, which act as a guide and leader for the aspirations and expectations of the lower strata.

Fashion. Although fashion as a social phenomenon cannot be identified conceptually with the demonstration effect, the latter frequently acquires the characteristic form of the behaviour of fashion. Fashion constitutes an aspect of social behaviour in which what is new represents a social value *per se*, with very special characteristics. The acceptance of fashion as a social phenomenon does not imply any personal relationship between some model and its imitators, hence its informal nature, although the most noteworthy characteristic of fashion is that it tends to create a stratified system among those who follow it (depending on its rapidity of expansion) in line with the relative prestige it confers on its followers.¹²

The demonstration effect frequently follows this pattern in attributing to the strata at higher levels and with more sophisticated forms of consumption a superiority in leadership and an associated prestige which appear as an intrinsic value of all modern stratified systems. Its most noteworthy features are: (a) the very dissemination of the fashion itself makes necessary a process of permanent change of the objects and styles of consumption, which is all the more rapid in proportion

¹²P. Heintz, "La moda como fenómeno social", in *Curso de Sociología*, EUDEBA, Buenos Aires, 1968.

as it spreads downwards. Moreover, the greater the success in the dissemination of new patterns and styles determined by fashion, the faster the signs of identification which characterized their imitators will lose their validity. Examples of this type of behaviour are the many material objects and styles of behaviour which, when they spread to the masses, rapidly cease to be distinctive signs. Take, for example, the "in" places of recreation and vacation, which acquire sudden fame, but rapidly lose the seal of prestige which they initially had once they become popular among the masses. The monopoly of fashion is therefore extremely short-lived, and new goods and styles must be repeatedly introduced in order to maintain the initial distances; (b) fashion has a compulsive effect in the sense that non-acceptance of it means remaining on the sidelines of what is normatively correct. There are therefore social sanctions extending from ridicule to the socially evidenced manifestation of social failure when one is unable to keep within the bounds of what is considered as superior and more prestigious;¹³ (c) participation in the forms of consumption imposed by fashion does not necessarily involve an explicit commitment on the part of its followers. The social value imposed by fashion may not be felt as a commitment to such value, but this does not mean that it therefore loses its socially compulsive nature. In this sense, fashion frequently corresponds to determinants originated by a feeling of insecurity and deficiency which resorts to the following of fashion as a characteristic form of compensation through channels of social prestige (the typical case of women's fashions).¹⁴ In general, for the same reason fashion is associated with profoundly competitive forms of interaction which display very low degrees of solidarity. It is one of the most extreme social phenomena, which brings out the excessive individualization of contemporary society.

The demonstration effect, as a mechanism for the dissemination of aspirations and expect-

tations, can thus assume the form of fashion and comprises the determinants just referred to in so far as fashion acquires major importance in modern society. The social phenomenon of fashion as a particular case of the demonstration effect, although historically it has been of an elitist nature and restricted to limited circles, acquires an increasingly general and intentional nature with the increase of the mass-oriented nature contemporary society. From this point of view, fashion helps to understand how, given certain conditions, needs are generated around certain emergent values, and how fashion itself is based on processes of social interaction.

Publicity. We have seen above that certain changes which form part of contemporary society bring with them the intensification of contacts with and forms of exposure to other forms of consumption, along with the growing legitimacy of a system of equalitarian values in which self-realization in access to goods is normatively common to all individuals, whatever their social, ethnic, religious or economic situation. At all events, the form at present assumed by the demonstration effect and the present manifestations of fashion cannot be satisfactorily explained without observing the role played by publicity.

The most noteworthy consequence of publicity for the demonstration effect is its capacity to do away with the need for the physical context or for direct contact between the different levels and styles of consumption, thus making possible the dissemination of concrete messages between all social levels. In practice, the effects of publicity lie, above all, in its capacity to circumvent mechanisms which are limited by social interactions and leave out stages peculiar to processes of inter-personal dissemination.

There is a difference in character between the ways in which the demonstration effect operated in more traditional societies—with few publicity resources—and the way in which it operates in contemporary society. The immediate experience of the lowest and most marginal social sectors in the past system was restricted to the ambit of their daily physical interaction in the sphere to which they belonged (small community, city, etc.), or possi-

¹³V. Leymore, *Hidden Myth: Structure and Symbolism in Advertising*, Heinemann, London, 1975.

¹⁴A. Cohen, *Custom and Politics in Urban Africa*, University of California Press, Berkeley, 1969.

bly to sporadic contacts either with other strata through physical mobility or through the presence of individuals from other contexts in their own context. Thus, *physical mobility* was the basic element and prerequisite for opening up minds to new forms and styles of consumption. This aspect acquires a totally different character, however, when it is a question of *psychological mobility*, which can be provided by the modern mass media (newspapers, radio, television), whose stimuli are an integral part of everyday domestic life.

Still more important, however, is the fact that modern forms of publicity and the development of the mass media constitute a further element which is *added* to the demonstration effect, not taking the place of the other forms, but reinforcing them and being reinforced by them in its effects.

The multiplying power of the modern mass media and publicity is also directly related to other characteristics which they possess such as:

(a) *Intentionality*

Unlike other processes of dissemination based on personal interaction, publicity has an intentional character. The emulation of and aspirations to consumption which may derive from the exposition of different styles, as conceived by Duesenberry, did not have a necessarily manifest character on the part of the leading strata in the process; moreover, it is not difficult to identify forms of behaviour by the upper classes which are clearly reserved or 'private' and do not have any explicit objective of disseminating their patterns of consumption. In contrast, fashion as a social phenomenon has an intentional nature, and the mass media, through publicity, are the basic instruments for its dissemination.

(b) *Structuring*

Inter-personal forms of disseminating patterns of consumption are not necessarily structured *a priori*. The stimuli which the lower levels of the social stratification receive when superior styles are displaced are generated relatively spontaneously. They frequently give rise to

stereotyped forms of imitation which may even have little relation to the original model. Publicity, in contrast, because it is intentional, transmits messages which have a high degree of structuring and contain precise symbolic significance. Articulated as it is around the relation between material goods and forms of prestige, publicity resorts to its profound knowledge of the psychology of the consumer, his motivations and frustrations, and his needs to feel more powerful or more recognized by his fellow men.¹⁵

(c) *Abstraction*

The contexts of the messages disseminated by modern publicity are notably abstract and therefore depersonalized. As this aspect was already considered earlier, it does not call for any further attention at this point.

(d) *Channels of dissemination*

The means by which publicity is transmitted are increasingly effective, both because of the type of mass media used and because of the sophistication and instrumental knowledge on which they are based. It is not necessary to be literate in order to be exposed to the demonstration effect generated by present-day publicity, nor does it call for any conscious effort.

For Galbraith (1960),¹⁶ publicity constitutes the "dependence effect" of modern society: it is the instrument *par excellence* for creating needs derived from another need, namely, the constant growth of production as a way of perpetuating the system. For other authors, publicity has a more modest function and is little more than a legitimate and necessary form of competition. Finally, others only recognize its basic informative function.¹⁷

¹⁵G. Katona, *The Powerful Consumer: Psychological Studies of the American Economy*, New York, Hillbrook, 1970.

¹⁶J.K. Galbraith, *op. cit.*, pp. 152-160.

¹⁷J.K. Galbraith says that "the even more direct link between production and wants is provided by the institutions of modern advertising and salesmanship. These cannot be reconciled with the notion of independently determined desires, for their central function is to create desire—to bring into being wants that previously did not exist. This is accomplished by the producer of the goods or

The needs for information due to the proliferation of modern goods and services, together with competition between firms and the need for continual expansion of the structure of production, explain the extraordinary growth of publicity in advanced capitalist societies.¹⁸ Galbraith's interpretation, however, inclines towards the economic determinants, thus leaving his explanation incomplete. It is easy to understand the 'peremptory' need for firms to resort to publicity as a way of creating new needs aimed at ensuring the expansion of their production, but it is difficult to attribute to publicity an omnipotent character alien to the dominant lines of society. If the power of publicity is so decisive, then this is because some other type of mechanisms operate socially to predispose people to accept what is new. This acceptance, as discussed in the previous section regarding fashion, is connected with the fact that in contemporary society everything that is new is a *social value*, although this has not always been so in the past and neither the so-called traditional societies nor certain social classes were always open to innovation or fashion.

The high degree of individualization which G. Germani identifies in his studies on the post-industrial society and similar phenomena have established, as is well known, that change is the socially legitimate norm of contemporary forms of modern sociability. The 'effective' rather than 'prescriptive' action proper to the latter not only establishes criteria for change as something which is considered perfectly normal, but also admits the possibility of change in these criteria.¹⁹

at his behes. A broad empirical relationship exists between what is spent on production of consumers' goods and what is spent in synthesizing the desires for that production. A new consumer product must be introduced with a suitable advertising campaign to arouse an interest in it. The path for an expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of a product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for the product". *Ibid.*, pp. 155-156.

¹⁸E. Heimann, *Teoría social de los sistemas económicos*, translated by Santiago Martínez Habe, Tecnos, Madrid, 1968, chapter X.

¹⁹G. Germani, "Democracia y autoritarismo en la sociedad moderna", in *Crítica y Utopía*, Buenos Aires, No. 1, 1979.

The formation of needs within the consumerist ideology is therefore not a unilateral process which can only be seen from the economic angle of the need for the expansion of production: it is fully incorporated in contemporary society as an intrinsic central value, while the social phenomenon of fashion, for its part, is the predominant form of action of this central value and publicity is its most direct link with the structure of production.

To sum up, the processes of social interaction which fit in very general lines under the concept of the demonstration effect, and their exacerbation by publicity, make it possible to explain some of the apparently erratic forms of behaviour of the structure of demand. The growing expansion and penetration of durable goods, considered as an expression of a modern style of consumption, only reveal their significance when approached on the basis of the principle of the non-additivity of individual demands.

2. *The extension of the demonstration effect*

The theoretical derivations of the concept of the demonstration effect introduced by Duesenberry have not been limited solely to the field of stratified national systems; its projections make it possible to apply the same notion to the field of international relations. If countries and not individuals are considered as the unit, the dissemination of the style of consumption characteristic of the most developed ones to those of less development makes it possible to characterize demand structures for the latter which do not necessarily fit in with the level of development of their domestic productive forces. The international dissemination of patterns of consumption is thus expressed with the same tendency as that identified at the level of individual stratification: the structure of consumption comes earlier than that of production.

"New products constantly emerge from the course of technical progress, which modify existing ways of life and frequently become necessities. In the poorer countries such goods are often imported goods, not produced at home; but that is not the only trouble. The basic trouble is that the presence or the mere knowledge of new goods and new methods of

consumption tends to raise the general propensity to consume. New goods, whether home-made or imported, become part of the standard of living, become indispensable or at least desirable, and are actively desired as the standard of living rises. We should distinguish here between two senses of the term 'standard of living': first, standard simply in the sense of aspiration, the norm to which one aspires, or the measuring rod; secondly, standard in the sense of what a country or a community can afford on the basis of its own productive efforts. Some articles of luxury consumption may well be a part of a country's standard of living in the first but not in the second sense."²⁰

As in the case of individual stratification, the demonstration effect in the international context is conditioned by:

(a) Differences in the material and non-material lifestyle between the units considered (in this case, countries); and

(b) Exposure to the knowledge of such differences.

Events in the brief period of history covering the expansion of world capitalism in the underdeveloped areas show that both factors have tended to increase by an exceptional amount.

The gap between the most advanced Third World countries and the Western capitalist community as regards income, technological development, education, health and styles of consumption has steadily increased, and the distance between development and underdevelopment has grown. Likewise, the growing economic, social and political interrelation at the world level and both individual interaction and impersonal means of communication—the latter not being limited only to publicity—have brought together very different cultures and societies, breaking down the barriers to knowledge of and exposure to different lifestyles. The process of decolonization begun especially after the Second World War has tended to eliminate ascriptive barriers at the international level by gradually destroying the legitimacy of international distinctions be-

tween 'castes'. All this has helped to generalize the dominant lifestyle, particularly that of the European countries and above all of the United States, far beyond the frontiers separating them from the most backward countries and even the socialist countries.

The consequences deriving from these considerations are undoubtedly significant for studying the capacity of saving and accumulation in the underdeveloped countries. If we admit that the structure of demand is relevant and that it can grow relatively independently of the structure of production, then the increase in real income in the underdeveloped countries does not appear to be necessarily the most suitable indicator for evaluating the process of advance. Much more important would be the relative income, since the capacity for saving would depend on this much more than on the absolute income.

In the view of R. Nurkse, increasing relative income in the industrially backward countries is not simply a question of increasing their productivity, but rather of reducing the difference between their level of income and that of the advanced countries.²¹

In spite of the absolute increase in real income, the potential capacity for saving is counteracted by a greater propensity to consume. Moreover, this propensity is not only related with accumulation, but can also have a direct relation with levels of external indebtedness and other economic factors. The implications of the theory of the international dissemination of styles of consumption are therefore not limited to the effect that this dissemination can have on saving and accumulation; it also directly involves the determining factors of the evolution of the balance of payments and the effects of external investment, international loans and subsidies, while it can have an influence on policies aimed at promoting capital formation, as for example through the limited effects that restrictions on imports may have on income and saving, and with regard to other trade policy measures. In the social and political spheres, too, the consequences which may

²⁰R. Nurkse, *Problems of Capital Formation in Underdeveloped Countries*, Oxford, Basil Blackwell, 1953, pp. 61-62.

²¹R. Nurkse, *op. cit.*

derive from this theory also help to explain 'chronic' phenomena of political instability in

Latin America and the growing expansion of the functions of the State.

III

Patterns of concentration and expansion of the consumption of durable goods in Latin America

It is generally acknowledged that the expansion of the consumption of certain types of material goods, namely, durable goods, constitutes a type of indicator which makes it possible to characterize with a reasonable degree of approximation the dissemination achieved by modern or capitalist patterns of consumption. This assumption can be accepted, although without losing sight of the fact that this choice is determined principally by operational restrictions deriving generally from intentional simplification connected with the scanty availability of empirical information.

If there is a generic syndrome of contemporary consumption, however, it only partly consists of goods of a durable nature. The contemporary lifestyle increasingly requires a set of material goods which are incorporated into the home as basic elements of consumption and are owned and used individually, yet their possession only constitutes part of this syndrome. The use made of time and in particular the ways of recreation and use of free time—increasingly important in modern forms of consumption—are also part of the styles of behaviour defined through various services and activities which, as a general rule, directly or indirectly require material goods. It is not always a question of individual possession of goods, however.

Again, in order to characterize the consumerist syndrome the analysis cannot be limited to the type of goods or services demanded, but must also cover the forms which their use acquires. The high substitutability or circulation of a given good in its different versions and the periodic replacement of a given object by a more modern and improved version are other characteristic features of tempor-

ary consumption. In this sense, as already noted, fashion is the social phenomenon which best exemplifies its nature. Consequently, the durable character possessed by certain goods from the physical point of view or from the point of view of the length of their useful life does not necessarily coincide with their durable character in social terms. In present day lifestyles, social durability tends to be less than material durability.

Finally, it is also worth recalling that in addition to the *type* of goods included in the concept of the modern comfort of the home it is important to consider their *number*. The accumulation of several of the same type of objects or appliances and the duplication or even greater abundance of certain material objects are already commonplace in the family consumption strategy.

When participation in modern consumption is measured through the *possession* of durable goods, one may be underestimating the effects of the high degree of substitutability, and when the measurement is through *expenditure*, the same error may occur with regard to the number of goods. There is therefore no perfect indicator for expressing modern consumption in a synthetic manner. The share of expenditure on durable goods—or their possession—are however approximate and indirect forms of measurement.

Only if we accept the hypothesis that there is a close association between the type of object consumed and the lifestyles is it possible to accept as 'proxy' indicators of the modern style of consumption a number of goods which can be classified, in simplified manner, as durable. Conventionally, the expenditure on their consumption, or their possession, has been the

most frequent way of measuring the dissemination of modern styles of consumption.

1. *The structure of demand*

Let it be said first of all that the form assumed by demand for durable goods in Latin America corresponds fairly approximately to the economic power as indicated by income. As a general rule, the distribution of these goods closely follows the distribution of income and reflects it. It would not be correct, however, to assume from this that there is homogeneous behaviour for all types of durable goods, since there are significant variations in their dissemination according to economic factors such as unit prices or social factors such as preferences. The behaviour shown by the concentration curves for certain goods of high relative value, such as automobiles, has no similarity to that of other durable goods of domestic use. In turn, certain goods which rapidly become 'priority needs' tend to be disseminated downwards in an even more equalitarian manner than incomes.

The great diversity observed in Latin America in the behaviour of expenditure on durable goods reveals something which it appears desirable to take into account from the very beginning: the positive relation between *income* and *consumption of durable goods* only expresses a determining relationship between one factor and the other, but does not reveal anything about its intensity or about the many forms that this relation can take. In statistical terms, this can be reproduced in different forms of relation (rectilinear-curvilinear), different intensities of the correlation, or different slopes of the regression line. The conventional interpretation of the determining factors of consumption has quite rightly pointed out that the higher income is, the more probable it is that there will be greater expenditure on durable goods. When it is desired to analyse the dissemination of goods, however, it is not enough merely to note this positive relationship, since it barely constitutes a starting point.

Secondly, the dissemination of durable goods recorded in the region in recent decades is considerably broader than the highly con-

centrated pattern assumed by some interpretations. The dynamic insufficiency of demand attributed to the high concentration of income in the top decile is not completely confirmed. The structure of consumption in Latin America shows significant dissemination of durable goods in the upper-middle, middle, and even lower strata, corresponding rather to a continuous distribution than to a dichotomy. J.R. Wells indicates, for example, that of the total number of family units surveyed in the household sample survey carried out in Brazil in 1972, which was of national coverage, 70% of the households had a radio; 49% had a sewing machine; 53% an electric or gas cooker; 32% a television set and 31% a refrigerator. The figures are even more significant when observation is transferred from the static structure of ownership of durable goods to the dynamics of the dissemination process. The study by Wells shows that much of the dynamism of demand during the period between 1967-1968 and 1974 was based on the social groups receiving only the equivalent of one to two minimum wages. "In this group, the ownership of refrigerators rose from 34.5% to 56.6% and of television sets from 20.9% to 57.7%. When the growth of these goods is considered globally, the study for Guanabara also indicates that the proportion of families owning refrigerators rose from 50% to 76% and the proportion of owners of television sets from 25% to 72%, these increases being located in the first case in the bottom 60% of income recipients, and in the second case in the bottom 80%."²²

The dissemination of durable goods recorded is, moreover, relatively independent of and bears no relation to the increase in income during the period considered or the increase in real wages. Whereas urban wages in Brazil, for the income strata whose real wages were in the bottom 70% of the sample, grew at an average rate of 1% per year, access to durable goods by these strata increased significantly. Furthermore, this phenomenon also applies to the rural sector. Between 1959 and 1970 in Brazil as a

²²J.R. Wells, *Subconsumo, tamanho de mercado e padrões de gastos familiares no Brasil*, São Paulo, Brazil, Estudos CEBRAP No. 17.

whole ownership of radios, for example, increased fourfold and ownership of refrigerators almost threefold.²³

Another country which shares some characteristics similar to the situation of Brazil is Mexico, where the structure and distribution of expenditure on the consumption of durable goods follows a pattern which is equally concentrated but shows a steady tendency to diffuse towards the middle strata. At the same time, however, the dissemination of durable goods in Mexico does not reach the same magnitude as in Brazil. The highest income decile concentrates 32% of expenditure on the consumption of durable goods (equipment and appliances), whereas the subsequent deciles concentrate 29%, 14%, 10%, 7% and 3%, respectively. Thus, approximately 60% of expenditure on these goods is concentrated in the richest 20% of households and 84% in the richest 40%, while less than 10% of spending corresponds to the bottom 50% of households.

When it is sought to distinguish variations within the region, an extreme case is that of some countries corresponding to the most advanced levels of modernization and having the most equalitarian patterns of income distribution; in this sense, Argentina is probably the most outstanding case. The behaviour with regard to consumption of durable goods in Argentina shows that the modal values of expenditure are distributed in such a way that the dynamic sufficiency of the demand for durable industrial goods is located precisely in the middle, lower-middle and lower classes. The household surveys for 1963, which covered the urban population (approximately 80% of the total population of the country), showed that consumption, as measured by expenditure, on various domestic equipment and appliances such as refrigerators, washing machines, heaters and cookers, vacuum cleaners, etc., showed a form of behaviour clearly different from that observed in the more backward and middle-level countries. The fifth to eighth deciles ac-

counted for almost 50% of expenditure on the purchase of television sets, refrigerators and washing machines, 35% of expenditure on heaters and cookers, and 40% of expenditure on radios and vacuum cleaners, whereas the top decile accounted for 9%, 10%, 20% and 12%, respectively, of consumption of these types of goods. The process of diffusion of durable goods in Argentina is probably indicative of what happens in other Latin American countries with similar patterns of development and modernization. This is particularly so with respect to Uruguay, for which similar data are not available, and also no doubt, although to a lesser extent, for Chile. These three countries are precisely those which, in the 1970s, began the experiment of a liberal economy on the basis of a relatively high degree of modernity of consumption.

Thirdly, another aspect worthy of note on the basis of the known studies on the distribution of consumption concerns the urban-rural distinction. The concentrating effects and the clearly exclusive consequences which income distribution has on the patterns of consumption of durable goods are strongly influenced by the high percentage of rural sectors, the great majority of which are margined from the benefits of economic development. The situation of urban families shows a clearly more equalitarian behaviour and a more continuous distribution of the diffusion of durable goods. In urban contexts, where employment in the secondary and tertiary sectors predominates, the penetration of the use of durable goods extends practically to the whole middle class and to substantial sectors of the lower classes. In addition to the studies already referred to, the work carried out under the ECIEL programme on patterns of consumption and income shows that as a general rule, and in spite of the considerable heterogeneity of the region, most of the countries register a low concentration of expenditure on these goods, as well as a distribution which is clearly continuous in line with social stratification. Studies for some selected cities of Latin America give the results shown in table 1. With variations attributable on the one hand to the relative level of development and modernity of these countries and on the other also to operational problems deriving from the diffe-

²³J.R. Wells, "The diffusion of durables in Brazil and its implications for recent controversies concerning Brazilian development", in *Journal of Economics*, Cambridge, 1977.

Table 1
STRUCTURE OF EXPENDITURE (PER CENT)

Category	Per cent										
	10	20	30	40	50	60	70	80	90	95	100
Durable goods ^a	3.10	4.23	5.57	12.49	11.31	10.83	10.08	12.74	15.97	11.76	10.63
Durable goods ^b	2.95	3.65	3.98	11.22	6.71	10.54	9.72	9.89	17.95	14.13	9.70
Household electrical appliances ^c	0.91	4.84	12.64	8.09	6.24	10.90	13.26	5.91	8.03	-	29.17
Glassware, china and domestic utensils ^c	1.16	5.37	9.95	16.40	6.37	13.12	8.06	6.40	19.14	-	14.04

Source: ECIEL, study on patterns of consumption and income.

^aChile (Greater Santiago), 1968-1969.

^bVenezuela (Urban-Caracas and Maracaibo), 1970.

^cColombia (Pasto, Manizales, Bucaramanga, Bogotá, Medellín, Cali and Barranquilla), 1970.

rent classifications of durable goods, the evidence provided by these studies is useful for sustaining the interpretation that the dynamic sufficiency of the urban structure is higher than has been assumed.

Fourthly, the tendencies shown in most of the data presented do not reflect —precisely because they refer to approximately a decade earlier— the changes which have taken place in recent years, whose tendencies, according to other data, have been towards continued expansion of access to and possession of durable goods in a downward direction. Nor is it possible in this sense to ignore the favourable effects deriving both from the changes taking place in social stratification and from a steady tendency towards the reduction of the relative prices of industrial products. In this sense, the changes which have taken place in the structure of social stratification in Latin America in the decade 1960-1970 support the well-known thesis of the considerable drop in the proportion of the population employed in the primary sector and the rapid growth of typical middle-class occupations and non-manual forms of employment. The urban growth projects for the 1980s in Latin America, together with the growth of the middle sectors, indicate that the economic and social structure of the region is continuing to change in a way that favours growing incorporation into consumption.²⁴ When this is

added to the reduction in the unit costs of durable goods, this gives additional reasons for assuming that the tendencies indicated by Wells for Brazil must have continued to operate in the direction of increasing the penetration of durable goods into the middle and lower strata.

Finally, it has also been possible to gain more knowledge of the expenditure on durable goods with relation to alternative expenditure in other categories, and especially with respect to spending on clothing and food. As a general rule, the proportion of family income devoted to food and basic needs tends to go down as income levels rise.²⁵ Although this phenomenon is registered in a regular manner, however, the behaviour of the relative proportions devoted to spending on durable goods and on food do not correspond to a clearly negative ratio: spending on durable goods grows rapidly only in the lower income levels and rapidly levels out, thus indicating relatively advanced attention to demands for goods of a modern nature deriving from a strategy of redeployment of family expenditure.

In this sense, the evidence raises some doubts about the assumed consequences that the raising of income in the lowest strata could have. As it has been sought to show in other

cional, modernización social y desarrollo económico en América Latina (CEPAL/VP/DS/185), November 1978.

²⁵C. Filgueira, *Consumo y estilos de desarrollo* (CEPAL/DS/VP/190), Santiago, Chile, 1979.

²⁴C. Filgueira and C. Geneletti, *Estratificación ocupa-*

studies, there are no elements for maintaining that, in view of the manifest shortcomings in the areas of food and clothing in the lowest strata, any increase in their income that could be achieved through redistribution would ensure fuller access to basic subsistence needs.²⁶ The behaviour reflected in the growing demand for goods of a durable nature indicates rather that, except at the most extreme levels of poverty, any increase in income could well be directed towards other types of demand which do not represent the most elementary components of human needs characterizing indigence.²⁷ And perhaps the most important point that remains to be made is that the basic and dominating values of the consumerist orientations of contemporary society do not ensure that a redistribution of income in favour of the most underprivileged sectors would significantly alter the dominant preferences or tastes or the priority given to durable goods.

In his study on Mexico, Lustig confirms these considerations when he affirms: "Another result worthy of emphasis is that according to the results obtained for the estimated income elasticity, redistribution towards the lowest income groups of urban families and above all metropolitan families would lead to a proportionately greater increase in the expenditure by these groups on *modern* goods rather than on *primary* and *traditional* goods (this is reflected in the relative magnitudes of the estimated elasticities). In other words, those families in the 0-1 000 pesos stratum (approximately the bottom 20% and 10% of urban and metropolitan families, respectively) would tend to replace basic goods (such as food, which is the most important item

in the *primary* and *traditional* goods) with non-basic or 'luxury' goods (such as consumer durables) in proportion as their income rises. This fact seems surprising if one starts from the assumption that the poorest urban families have not effectively covered their basic needs, but it can be explained by the intensity of operation of the 'demonstration effect' (that is to say, the copying of the consumption patterns of higher strata) and the effectiveness of publicity in urban centres. This means that the mere redistribution of income does not guarantee a better level of living (in terms of nutrition, for example) if the greater purchasing power of poor families is absorbed by non-basic goods, a phenomenon well known in Latin America as the case of the 'empty refrigerator'."²⁸

2. Consumption, saving and indebtedness

The second point worthy of discussion does not concern consumption, but the behaviour with respect to saving. The information available in this respect is even scantier, and the difficulties for formulating a satisfactory diagnosis of the behaviour with respect to saving make necessary an approximation of more modest scope. There are two aspects of saving which seem to be relevant for its interpretation within the saving-consumption-investment complex. The first of them concerns the general level of saving, or the amount of income diverted from present consumption needs. The second is connected with the form of saving, in the sense of its possible use. The forms towards which saving can be directed are very diverse, and some of them may represent investment proper, while others may not do so. Even in the case of investment, some authors have made a distinction between productive capital and consumption capital.²⁹ This second aspect of the analysis of saving within the saving-consumption-investment complex is not for the moment central to the analysis being made here, but the first aspect is.

The amount of income which can be

²⁶A recent FAO study says that according to the information available to FAO on the reaction of consumers to changes in their disposable consumption income (GCP agricultural consumption/private consumption expenditure), the average elasticity of agricultural consumption with respect to the GCP should have been around 0.25 in the period 1963/1975, whereas in reality it was only 0.11. The FAO study attributes these results principally to the concentration of income, although it is difficult to imagine how this could have had such a heavy impact. It is more likely that changes in consumer preferences are also responsible for this overestimation of the elasticity. See FAO, *Agriculture: Towards 2000, problems and options for Latin America*, Rome, August 1980.

²⁷C. Filgueira, *op. cit.*, 1979.

²⁸N. Lustig, "Distribución del ingreso, estructura del consumo y características del crecimiento industrial", in *Comercio Exterior*, Mexico City, Vol. 29, No. 5, May 1979.

²⁹R. Prebisch, *op. cit.*

oriented to consumption or alternatively to saving was already given a classic formulation in the work of Keynes. The balance between spending on consumption and saving played a central role in his theory of equilibrium: the 'fundamental psychological law' on the marginal propensity to consume held that an increase in real income would not lead to a proportional increase in the absolute amount devoted to consumption, so that a larger absolute amount would be saved.

The empirical results of studies of the behaviour of saving with relation to the growth of income, however, have not confirmed this hypothesis, and some disconcerting results were obtained when the analysis was not limited only to a static and global situation but sought to register the dynamic trends and disaggregations of different types. In Latin America, as in the developed countries, the structure of saving with relation to income corresponds to the most obvious expectations: the households with the highest income save proportionately more than the lower-income households, and practically all the personal saving of the countries is concentrated in the upper strata. Here again, we find ourselves faced with an apparently simple relation which may obscure another different and even contrary type of relationship. Some authors who have sought to untangle the set of opposing tendencies operating in the relationship between consumption and saving have pointed out the particular behaviour of this relationship when the analysis takes into account the time dimension.

(a) Historically, there is a tendency towards a decline in the percentage of families and households which save, and this reduction does not seem to be a phenomenon restricted to the more developed countries. "Kuznets estimates by decades, starting from the 1880s, show a big increase in real national income but no increase in the percentage share that went into capital formation. On the contrary, from the 1890s to the 1920s, when real income expanded more than threefold, there was actually a slight downward tendency in the national saving ratio".³⁰

there is a set of data which at first sight shows a puzzling feature. The average urban family in the United States in 1917-1919, earning 1 500 dollars per year in terms of 1941 prices, saved 120 dollars, or 8%. An average family with the same real income in 1949, however, saved practically nothing. Likewise, family budget data for the period 1901-1941 indicate that the average family with an income of 2 000 dollars a year, valued in 1941 prices, saved about 18% in 1901 and only about 3% in 1941. Obviously, this information does not give any grounds for assuming that if around 1940 75% of United States families did not save anything at all, this was because they were too poor to save. The tendencies in question seem rather to show that there was a considerable increase during this period in the pressure and stimulus on families to spend their money and in the creation of new 'basic' needs and demands for new consumer goods perceived as being superior and of growing social value. At the same time, in proportion as the relative percentage of saving goes down, forms of indebtedness tend to increase. Hire purchase, borrowing of money and various other ways of obtaining material goods and levels of consumption which are above the income currently received are the counterpart of the relative decline in saving.

With regard to Latin America, the studies on the structure of family expenditure in the city of São Paulo show that the phenomenon of indebtedness through installment payments extends right over the middle, lower-middle and lower strata, so that it forms quite a generalized phenomenon. "The average for all families is 14.4%. The figure for families receiving extremely low incomes—between the equivalent of 2 and 6 minimum wage units—is 10.7%, rising to 13.5% for families with income levels of between 6 and 8 minimum wage units. Above that, the distribution stabilizes for the higher income levels, in no case exceeding about 18%."³¹ The information provided by ECIEL's studies for Rio de Janeiro in the period 1977-1978 indicates that the percentage of the family budget devoted to the payment of purchases on credit and repayment of loans is

³⁰R. Nurkse, *op. cit.*, p. 59.

³¹J. R. Wells, *op. cit.*, 1976.

quite substantial. Approximately 15% of the expenditure on durable goods plus articles for personal care is devoted to the payment of credit purchases and loans. If we analyse the distribution of households according to income received, we note that it is the middle and lower middle classes which are responsible for most of the expenditure on the payment of credit purchases and loans. Deciles 4, 5, 6 and 7 are those which concentrate the highest percentages, accounting for 53% of the total expenditure on the payment of credit purchases and approximately 62% of expenditure on the repayment of loans.

The difference between the dominant consumerist orientations does not only reduce the absolute and relative levels of saving, but actually creates marked deficit situations. Moreover, these patterns of indebtedness seem to be less and less dependent on collective or individual conjunctural situations and instead are becoming stable and relatively institutionalized patterns of economic behaviour.

(b) The relationships between saving and family consumption, when analysed in disaggregated form according to the urban or rural nature of the context to which the family unit belongs, also show behaviours which are apparently contradictory. Though scanty, however, the information available for Latin America, despite its limitations, has additional value because of the consistency of the results. A study carried out by CEPAL (1973) indicated a clear correlation between the more or less modern nature of the context to which the family units belong and their behaviour with regard to savings.³² In the big cities such as São Paulo and Caracas, the relative percentage of saving in relation to income received was less than that recorded in smaller urban localities and rural contexts. In the big urban conglomerates of Venezuela the average level of income at which families began to save was four times

that of rural areas. The same applied with regard to the relationship between expenditure and indebtedness; whereas in the bigger cities income was 10% below total expenditure (16.5% in Caracas), in more backward (rural) localities saving was 10% more than monthly income. "A comparison of the data for cities in Brazil at different levels of socio-economic development reveals a similar trend. In São Paulo, families began to save at an average income slightly more than three times the level at which families had a surplus in Belén (Pará). This means that only 3% of families were saving in São Paulo compared with nearly 70% in Belén. The ratio between average annual income and average annual expenditure is clearly on the plus side in Belén, whereas in São Paulo inclusion of items such as the acquisition of cars, which account for a considerable part of spending, raises some doubts as to whether total average saving is a plus or a minus figure. It would thus appear—and the same situation occurs in other cities—that the stimulus which the higher average personal income in the metropolitan areas should give to capital formation is counterbalanced by the high level of consumption."³³

The Keynesian hypothesis of the relation between saving and increased income is difficult to sustain in the light of this evidence. The most important point of interest here, however, is not the criticism of the poor explanatory capacity of the fundamental psychological law—a criticism which has in any case been repeated *in extenso* in various other studies—but lies rather in the implications that the real behaviour of saving and indebtedness have for investment and consumption. The behaviour shown by the family units once again suggests serious doubts regarding the effects of income redistribution as a way of reorienting consumption and freeing resources for investment. At best, income redistribution may be a necessary but not sufficient condition for securing this.

³²CEPAL, "Income distribution in selected major cities of Latin America and in their respective countries", in *Economic Bulletin for Latin America*, Vol. XVIII, Nos. 1 and 2, 1973, p. 43.

³³CEPAL, *op. cit.*, 1973, and D. Felix, "Progreso técnico y desarrollo socioeconómico en América Latina" (CEPAL/CONF. 53/L.2), Santiago, Chile, 1974.

IV

Consumption in the stabilization models

In the mid-1970s, several Latin American countries set about making drastic changes in their economic policies. Chile, Argentina and Uruguay were the countries which went furthest with what were called their 'openness' models. Although in a more partial manner, some policies and measures of a monetarist nature deriving from liberal orientations were also applied in some other countries of the region.

These policies were not, of course, something new in Latin America, but the lengths to which they have been taken, the institutional framework in which they are operating, and their permanence and continuity are new developments. In reality these are something more than mere sectoral or partial changes in some aspects of the economic structure. The global orientation behind them implies much more than this, and it could be asserted that much more than an economic transformation they represent "a self-contained and consistent body of ideas which go to make up a whole ideology. They provide an explanation of the past and a set of rules for action which are designed to lead society towards an ideal utopian model whose functioning is governed by the efficiency and objectivity of private economic relations".³⁴

The emergence of these new models must undoubtedly be considered as one of the most significant changes which has been made in opposition to the traditional Latin American models, and their repercussions at both the domestic and external levels go far beyond the purely economic field to embrace a vast concept of an integral society as a model of social and political organization. Whatever the name given to them—liberal, monetarist or economic stabilization models—the policies adopted and the concrete measures taken al-

ways revolve around three basic elements: (a) the return of the economy to private hands; (b) the liberalization of markets and (c) opening up to the exterior. In order to achieve this, resource has been had to measures aimed at the liberalization of prices accompanied by strict control of wages and restriction on trade union activity. All this has meant that one of the most important results of the new models has been the changes in the economic agents and in the forms of political articulation. There would be no point in going here into the details of the models and their special features at length, however, since there is a very extensive literature on the subject.³⁵

In particular, with regard to the analysis of consumption, there is a wide range of measures and policies adopted by each country which give rise to differences of considerable magnitude; thus, for example, the degree of openness of the economies to the international system shows significant variations between countries with different characteristics and demand structures.³⁶

In Chile, for example, import duties were drastically reduced between 1973 and 1979, going down through a process of successive reductions from a maximum of 60% in 1973, then 35%, then 18%, and finally only 10% in 1979 for practically all imported goods. The process followed in Chile is much more extreme, and was not reproduced in identical terms in Argentina and Uruguay, where the

³⁵In addition to the various official documents which have served as a basis and justification for the new liberal strategy, the economic, social and political thinking in Latin America has developed its study of this matter to such an extent that any further reference to the matter here would be redundant. To mention only a few of the main studies, it may be recalled that CEPAL, in various studies published in *CEPAL Review*, has given special attention to the analysis of the new models, as have other studies carried out by CIEPLAN (Chile), CEDES (Argentina), and CINVE and CIESU (Uruguay).

³⁶Aldo Ferrer, "La economía internacional desde una perspectiva latinoamericana", in *Estudios Internacionales*, Vol. XIII, No. 49, January-March 1980.

³⁴R. Frenkel, "Las recientes políticas de estabilización en Argentina: de la vieja a la nueva ortodoxia", CEDES, 1980.

reduction in tariffs was more gradual and more sustained protection was given to local production.

Moreover, the structure of demand will also be strongly conditioned by other factors: the greater or lesser extent to which the styles give rise to concentration of income, the policy regarding the use of the surplus, and the different rates of progress of the return to private enterprise in all spheres.

The consequences of the policy of opening up to imports are seen with extraordinary rapidity in the composition and volume of imports; in particular, consumer durables and certain categories such as beverages, tobacco and toiletries show noteworthy growth after only a very few years, as may be seen from tables 2

Table 2

CHILE: IMPORTS OF CONSUMER GOODS

(Millions of 1977 dollars)

	1970	1978	Growth rate
Manufactures of leather and fur	1.3	3.4	161.5
Imported alcoholic beverages	0.6	11.9	1 883.0
Imported tobacco, ciga- rettes and cigars	7.7	9.4	22.1
Clothing, household textile goods and carpets	24.1	91.0	277.6
Photographic and cinematographic goods	7.8	10.3	32.1
Footwear, hats, umbrellas and sunshades	2.0	7.3	265.0
Musical and optical instruments	4.3	9.6	123.3
Toys, games and recrea- tional articles	3.4	22.6	564.7
Perfumes and toiletries (cosmetics, colognes and perfumes only)	0.1	6.6	6 500.0
Black and white and colour television sets	0.7	56.3	7 942.9
Radio receivers	4.6	28.7	523.9
Automobiles and motorcycles	19.0	40.6	113.7
<i>Total</i>	<i>75.6</i>	<i>297.7</i>	<i>293.8</i>

Source: R. Ffrench-Davis, "Políticas de Comercio Exterior en Chile, 1973-1978", CIEPLAN (mimeo), November 1979; National Institute of Statistics, Third Family Budget Survey, vol. III, May 1979.

and 3 on Chile and Uruguay. Argentina, too, is experiencing an increase of the same nature. According to a CEPAL report on the latter country, over the period 1976-1979 the share of consumer goods in the value and composition of imports rose from 65 million dollars in 1977 to 660 million in 1979. In 1970 they accounted for 4.9% of total imports, whereas in 1979 their percentage value was 9.9%. In the latter year alone, the growth rate of imports of consumer goods reached a value of 211.3.

Chile is undoubtedly the most extreme case, where the 'experiment' has produced deeper transformations than in other countries, so that it is closest to the typical ideal case which sums up the features of models of this nature. Because of the special features of their economic policy, Uruguay and Argentina are cases where the effects on the structure of demand have not made themselves felt so significantly (see tables 2 and 3).

For these reasons (and other less substantial reasons could be added to them) the considerations regarding consumption will take theoretical account of the purest model of an open economy, so that most of the empirical references made will apply to the Chilean model.³⁷ As noted in the first section of this article, openness models may be considered as being of a markedly consumerist nature.

As is well known, one of the basic assumptions behind the changes made as part of the stabilization economic policies lies in the importance attributed to openness as a way of permitting and favouring the importation of the capital goods needed for investment. It is also postulated that this gives rise to increased efficiency, since it subjects national production to conditions where it has to compete with international prices. Without wishing to discuss the validity of these assumptions or the objectives involved, there is another fact which does have a great deal to do with the thread of the previous argument. One of the most important con-

³⁷Of the three countries considered, Chile is the only one on which there is sufficient information for an analysis of this consumption of 'quasi-experimental' type, since in 1969 and 1978 two surveys were carried out on family budgets in Greater Santiago, in addition to the ECIEL study on family income and expenditure, 1968-1969.

Table 3
URUGUAY: GROWTH OF IMPORTS
(1976 = 100)

	Dollars			
	1976		1979	
Television sets (85-15-01-12)	100	(25 052)	2 668	(668 566)
Radio cassette recorders (85-15-02-19)	100	(200 190)	1 745	(3 443 403)
Gramophone/tape recorders (92-11-01/02)	100	(409 729)	206	(845 332)
Clockwork mechanisms (91-01)	100	(2 555 310)	153	(3 930 332)
Toys and sporting goods (97)	100	(262 982)	681	(1 792 136)
Electrical machinery and equipment	100	(19 139 000)	208	(39 886 000)
Beverages and tobacco	100	(7 553 000)	250	(18 912 000)
Optical and cinematographic goods ^a	100	(4 564 000)	282	(12 896 000)

Source: Bank of the Republic, Statistical Section.

^aIncluding medical and surgical equipment.

sequences of the measures adopted is that they tend to increase the distance between the demand profile and the production structure. It is easier to expand certain types of economic behaviour than others, and the easiest thing to do is precisely to expand the consumption of imported goods, in contrast with the much longer process involved in the investment and accumulation of capital in productive activities. Foxley (1980) draws attention in his study of the free market economy in Chile to the different growth rates of exports and imports during the period 1970-1978.³⁸ From his analysis it can be seen that over a period of eight years the success achieved thanks to the new economic policies in the field of non-traditional exports was offset by the growth of consumer goods, above all non-food consumer goods.

Over the period 1970-1978, non-traditional and semi-traditional exports increased by a factor of 2.7, while imports of durable goods increased by a factor of 2.1 and imports of capital goods remained practically unchanged. In 1978 the positive effects of the expansion of exports based on products of a non-traditional nature were partly offset by the demand for consumer goods, which absorbed 62.5% of the

income from non-traditional exports. This is a similar proportion (or even somewhat superior) to that recorded in 1970 (60.0%). While total exports went down in absolute terms (from 2 216.1 to 2 105.2), imports increased by a factor of 1.4. The success achieved through the policy of non-traditional exports did not really provide any significant surplus, as might have been expected, and indeed, in keeping with the tendencies observed, any potential accumulation was actually reduced. The mechanisms responsible for this process are varied, and can only be understood within the more general process of change implicit in the overall set of new strategies of openness and insertion into the international market.

1. Why consumption increases

(a) In principle, a measure such as the reduction of import tariffs should not necessarily result in the promotion of consumption. In England, for example, the stabilization policy has not had these results. If this has occurred in Latin America, then this is because, as already noted, the transmission of consumerist tendencies through the demonstration effect occurs whenever: (1) there is a disparity between the levels of consumption of different countries and strata and (2) there is awareness of these differences.

The lifting of import restrictions, which

³⁸A. Foxley, "Hacia una economía de libre mercado: Chile 1974-1979", in *Estudios CIEPLAN*, No. 4, Santiago, Chile, 1981.

previously kept superior goods inaccessible or restricted their diffusion increases the real availability of these goods and produces a growing (stratified) differentiation of the new imported products. It is not just a question of the consequences deriving from the relatively lower unit prices of the imported goods, however, but is also the result of other real or symbolic characteristics attributed to them. Quality, variety, usefulness and presentation are just a few of these, but even more important is the fact that these goods are associated with symbols of what is modern and 'new', characteristics of societies enjoying greater prestige. Many of these goods undoubtedly possess a strong value element deriving from the sensation of their postponement in time: they are highly desired goods and objects which already formed part of a symbolic world with its own styles and fashions and to which it was difficult to penetrate before.

(b) Moreover, the introduction of the new goods is not unconnected with other processes which accompany it, since there is at the same time a heightening of competition in the sale of products. In this context, publicity (carried out as a function of any of the needs already noted: expansion of production or competition) acquires new dimensions. Seen from the outside, a new market is opened up which it may be possible to capture, and this need is not just the result of domestic economic policy measures.³⁹

Firstly, in conditions of growing openness it can be expected that there will be a quantitative expansion of publicity through the various mass media. An approximate indicator which makes it possible to evaluate the size of the change is that of the expenditure or investment devoted to this. The growth of investment in publicity in Chile between 1966 and 1980 is recorded in the study by R. Salinas (1979) on the expansion of the media in Chile, and it confirms expectations.⁴⁰

The figure for investment in publicity in

1970 was 23 430 000 dollars, and by 1980 this had increased to 126 million dollars, but 90% of this increase took place only in the last six years (between 1974 and 1980). In 1974, expenditure on investment in publicity came to 0.45% of the gross product, and in 1980 the figure amounted to 1.05%, while around 1977 investment in publicity accounted for approximately 9% of total investment.

Secondly, publicity not only grows, as is shown by the resources spent on investment in it, but also tends to be concentrated in the most efficient channels and mass media. Thus, the more traditional media (radio and newspapers) tend to be substituted by other more modern and effective media (the former lost 7.25% of total participation in one year).

In the years 1977-1978, the displacement of investment on publicity among the different mass media in Chile showed the growing share of the most efficient channels, the media which grew most being television, the cinema and magazines, in that order (see table 4).

Thirdly, publicity also tends to be concentrated on certain types of articles, goods and services. A small group of these—no more than 10—account for approximately 50% of total investment in publicity in each of the mass media (see table 5), showing the domination of durable goods and other highly valued objects, a substantial percentage among them being accounted for by the group of modern durables (electric household appliances, television,

Table 4

CHILE: INVESTMENT IN PUBLICITY, BY TYPE
OF MASS MEDIA, 1977-1978
(Percentages)

Media	1977	1978
Newspapers	47.98	43.30
Magazines	5.44	6.35
Television	33.71	38.07
Radio	9.74	7.17
Cinema	1.27	2.73
Other	1.86	2.38
<i>Total</i>	<i>100.00</i>	<i>100.00</i>

Source: Grafic Matic International Corporation.

³⁹Although it is not the subject of this analysis, it is impossible to ignore the decisive effect exerted by the situation of world recession and the growing protectionism adopted above all by the more developed countries.

⁴⁰Raquel Salinas Bascourt, "Chilean Communication under the Military Regime, 1973-1979" in *Current Research on Peace and Violence*.

Table 5

CHILE: CONCENTRATION OF INVESTMENT
IN PUBLICITY, BY TYPES OF GOODS, 1980
(Percentages)^a

	TV	Maga- zines	News- papers
Household electrical appliances, television sets, radios, cookers, refrigerators, etc.	7.6	7.1	4.6
Perfumes, toiletries, etc.	8.7	19.3	
Beverages, tobacco, etc.	12.3	4.8	
Special foods	8.2	—	
Chocolates and candies	6.2	—	
Automobiles, motorcycles and accessories	—	10.1	15.0
Housing and real estate	—	—	10.2
Banks, savings and loan associations, finance houses	6.8	10.7	9.5
Institutes and colleges	—	—	4.0
Official advertising	—	—	4.2
Other	50.2	48.0	52.5
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Grafic Matic International Corporation.

^aIncludes only percentages over 4%.

radio, automobiles, etc.), together with products for personal care. Mention should also be made here of other services involving activities which are essential for the new models, especially banks and finance houses, and others such as education which result from the private enterprise policies pursued.

Fourthly, another significant change concerns the structure adopted by the publicity companies and their relations with the transnational corporations. The concentration of such companies is also worthy of note: it is worth noting that 12 such companies control most of the expenditure on publicity. In conjunction with the penetration of financial capital, transnational corporations and local groups linked with the latter in other spheres of economic activity, the concentration of publicity firms must therefore be viewed as a reflection of the same phenomenon. While there are approximately 200 advertising agencies in Chile, of which 38 have more stable characteristics and are affiliated to the Chilean Association of Advertising Agencies (ACHAP), most of the capi-

tal directed to publicity activities corresponds to enterprises which are subsidiaries of, are in close contact with, or at least have economic relations with transnational production firms or powerful domestic economic groups.

Finally, this relationship between firms also has consequences with respect to the efficiency and modernization of the consumer stimuli, to such a point that it might be felt that the stage of the establishment and consolidation of modern marketing techniques is just beginning.⁴¹

From the above it can be seen that the modern mass media, in the new context of openness to the exterior and through linkage with the international market and more advanced technological forms, are attaining levels of 'sophistication' and making use of instruments for stimulating consumption which are transferred directly through the transnational corporations from the countries of origin of the imported products themselves.

In the light of these four aspects, it can better be understood why the diffusion of external lifestyles is also conditioned by the additional effects of publicity. The development of the mass media undoubtedly forms an organic component in the openness models, and sectorally these media show the same features of modernization which can be observed in other spheres.

(c) The growing exposure to stimuli from more developed societies, through the reduction of tariffs and publicity messages deliberately designed to disseminate those models, exerts an influence, as we have seen, on the effectiveness with which the demonstration effect functions. In addition, there are some unforeseen consequences deriving from openness policies which also affect the diffusion of modern forms of consumption.

This diffusion has been expanded in two ways: firstly, through international physical mobility and secondly, through the diffusion of instruments of communication.

A common feature of openness models is that the frequency of foreign travel is increased as one more component in the consumerist

⁴¹*Ibid.*, p. 19.

lifestyle (recreation and leisure typical of the modern style), and foreign travel and international tourism thus partly constitute a manifestation of this style, although these practices are also favoured by the domestic and external price relations caused by the policy followed in foreign exchange matters. In recent decades, particularly in the countries of the Southern Cone, we have witnessed greater international physical mobility involving a growing flow of tourists to more developed countries, especially the United States and Europe. The proliferation of travel agencies, foreign travel plans, and special systems of tariffs and ways of financing tourism have acquired previously unknown dimensions which can only be compared with the extraordinary variety existing in the developed countries. This process has undoubtedly constituted a further powerful stimulus for consumption either through the direct acquisition of goods abroad or as the result of direct acquaintance with styles of consumption characteristic of the countries mentioned.

Furthermore, the gradual penetration of material goods and objects has not in all cases had the same consequences on the demonstration effect. Whereas some goods are objects of consumption which do not possess multiplier effects as regards exposure to consumer stimuli, others result in almost exponential diffusion. Indeed, a considerable number of goods, which are among those most widely diffused, are objects which permit growing exposure to publicity and to consumerist messages. An idea of this phenomenon can be gained from the fact that in the period 1970-1978 in Chile, the expenditure on the purchase of television sets grew from 0.7 million dollars to 56.5 million. According to information from the National Television Council mentioned by Salinas in the study already referred to, almost 10% of television time in Chile corresponds to publicity, while 60% of the time corresponds to other forms of entertainment (films, series, etc.) among which there are also programmes which transmit consumerist stimuli.

(d) Fourthly, the prevailing institutional framework in which the penetration of consumer goods takes place (opening up to the international market, publicity and mass

media) has the special feature of being a context of limited participation.

As is well known, in societies with open and pluralistic systems individuality is often asserted through a multitude of channels of participation: community, political, artistic, cultural, trade union, etc. Forms of association of various types and with various degrees of institutionalization are present in everyday life in activities related with work, culture and recreation, and form the principal channels whereby the individual is incorporated in society. Moreover, this incorporation is not limited to 'face to face' participation in associations, nor is it always necessary to be a member of the group to carry it out. There are other more depersonalized forms of participation in currents of opinion or 'referential' frameworks of ideas, which are expressed through the pluralism of the press, radio and literature, to say nothing of politics, and constitute some of the most important links between the individual and society. When these channels of participation are narrowed, there only remain work and consumption as the sole or principal form of relation between the individual and society.

The characteristic form of restricted symbolic participation through abstract frames of orientation heighten the importance of consumption as a form of realization of the individual in society. Depending on the more participative or more exclusive character of the models, it is important to stress the consequences that this can have from the point of view of the expression of individuality in the social medium. It is not just a question, as we have already seen, of accepting patterns of consumption as something derived from publicity pressures or from growing exposure to other styles of consumption. What is involved here is the exacerbation of the need to express what one is in terms of the possession and acquisition of material objects and goods. If work, as one of the essential spheres of participation of the individual in society, becomes—as happens in modern society—increasingly an activity which does not represent any direct gratification in itself (since such gratification derives from what can be achieved with the income benefit) the central character which possible success in the race to acquire new forms and

patterns of consumption comes to occupy becomes an effective 'potentializer' of the aspirations and expectations for higher levels of consumption.

(e) Finally, but no less important than the foregoing points, it is also necessary to consider here what role is played by the general ideology of the system with respect to consumption: up to what point the legitimating ideology coincides with the consumerist goal. When the model of society places extreme value, as objectives and achievements of the ideal society which it is desired to construct, on the possession and acquisition of material goods, the set of forces analysed above acquires even greater ideological coherence. The stimuli diffused through radio, television and the press, the openly consumerist behaviour of the upper strata, and international physical mobility thus acquire, in an openly and consistently consumerist ideology, the nature of a norm of conduct.

2. The concentration of consumption

The economic measures adopted by the new openness models have been described as 'concentrative'. And indeed, the further these models have gone with their changes, the more there has been a regressive redistribution of income. On analysing the patterns of income distribution, the factual conclusions which can be derived from the real behaviour of income distribution in the countries which have carried out orthodox openness policies indicate that the models have indeed been concentrative.

In Argentina, the share of wages in total income went down from 48% in 1975 to 35% in 1979. In Chile, the concentrative process has been somewhat different: between 1970 and 1975 real wages went down by almost 40%, registering a recovery in 1979. Thus, the relative share of wages in total income went down between 1970 and 1976 from 52% to 41%, while in 1979 there was a recovery to a figure of around 45%.

The results of income concentration in Chile given in table 6 show that during the period between 1969 and 1978 the share in total income went down for 48% of households

Table 6
CHILE: INCOME DISTRIBUTION, GREATER SANTIAGO

Households	Percentage of total income	
	1969	1978
Poorest 20%	3.74	3.70
Lower middle 20%	7.65	7.36
Middle 20%	12.10	11.68
Upper middle 20%	20.12	19.96
Richest 20%	56.39	57.30
	100.00	100.00

Source: Results quoted in Cauas and Saieh (1979). Taken from René Cortázar, "Distribución del ingreso, empleo y remuneraciones reales en Chile, 1970-1978", in *Estudios CIEPLAN*, N° 3, June 1980, p. 12.

and only the richest 20% of income recipients enjoyed and increase.

Finally, in Uruguay, taking as base 100 the five-year period 1968-1972, real wages went down by approximately 40% by 1978, while the concentration of income followed the pattern shown in table 7.

With regard to the concentration of consumption, although no comparative data are available for the three countries, since only Chile has sufficient data derived from the two consumption surveys carried out in 1969 and 1978, the results observed, subject to all the difficulties of generalization involved in this situation, also coincide to a notable degree with the concentrative syndrome of the models.

In Chile, for example, the two family budget surveys carried out in the period 1968-1969 and 1977-1978, covering Greater Santiago, clearly indicate the concentration of wealth. As may be seen from table 8, only the top 20% of households increased the proportion of expenditure on consumption. The second quintile remained practically unchanged, while the bottom 60% of income recipients registered a drop in their consumption expenditure.

The estimates carried out by R. Cortázar on monthly average consumption by households on the basis of these two surveys, in pesos of

Table 7

INCOME DISTRIBUTION
(Percentage of income derived from work, Montevideo 1962-1979)

	1962		1968		1973		1976		1977		1978		1979	
Percent- age of popula- tion	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total	Per- cent- age	Cumu- lative total
-5	1.44		0.68		0.87		0.70		0.59		0.61		0.54	
10	3.47	3.47	2.13	2.13	2.43	2.43	2.00	2.00	1.66	1.66	1.79	1.79	1.61	1.61
20	4.94	8.41	3.97	6.10	4.10	6.53	3.52	5.52	2.92	4.58	3.23	5.02	2.94	4.55
30	5.88	14.29	5.10	11.29	5.15	11.68	4.68	10.10	3.83	8.41	4.20	9.22	3.85	8.40
40	6.80	21.09	6.21	17.41	6.19	17.87	5.63	15.73	4.78	13.19	5.20	14.42	4.75	13.15
50	7.80	28.89	7.38	24.95	7.32	25.19	6.83	22.56	5.86	19.05	6.29	20.71	5.76	18.19
60	8.94	37.83	8.74	33.53	8.62	33.81	8.23	30.79	7.16	26.21	7.61	28.32	6.96	25.87
70	10.34	48.17	10.40	43.93	10.24	44.05	10.01	40.80	8.86	35.07	9.28	37.60	8.49	34.36
80	12.17	60.34	12.64	56.57	12.41	56.46	12.48	53.28	11.26	46.33	11.63	49.23	10.63	44.99
90	15.01	75.35	16.08	72.65	15.81	72.27	16.45	69.73	15.33	61.66	15.52	64.75	14.21	59.20
100	24.65	100.00	27.35	100.00	27.73	100.00	30.27	100.00	38.34	100.00	35.25	100.00	40.80	100.00
+5	15.24		16.96		17.48		19.24		27.60		24.60		31.06	

Source: Alicia Melgar, *Datos básicos para el estudio de la distribución del ingreso*, CLAEH, Montevideo, 1980.

Table 8

CHILE: DISTRIBUTION OF CONSUMPTION, GREATER SANTIAGO

Households	Average monthly consump- tion per household (1979 pesos)		Percentage of total consumption	
	1969	1978	1969	1978
Poorest 20%	5 953	4 112	7.6	5.2
Lower middle 20%	9 243	7 354	11.8	9.3
Middle 20%	12 219	10 754	15.6	13.6
Upper middle 20%	16 058	16 527	20.5	20.9
Richest 20%	34 857	40 328	44.5	51.0
Average	(15 666)	(15 815)	100.0	100.0

Source: National Institute of Statistics, *Encuestas de Presupuestos Familiares*. Nominal figures, deflated by the Consumer price Index, in Cortázar and Marshall (1980). Taken from René Cortázar, "Distribución del ingreso, empleo y remuneraciones reales en Chile, 1970-1978", *op. cit.*, p. 10.

1979 values, also indicate that average household consumption has remained practically unchanged,⁴² the deterioration observed in the bottom 60% of households in Greater Santiago being offset by an absolute improvement in the top 20% and a slight improvement in the second quintile (see table 9).

Subject to the reservations already noted

⁴²R. Cortázar, "Distribución del ingreso, empleo y remuneraciones reales en Chile, 1970-1978" in *Estudios CIEPLAN*, No. 3, Santiago, Chile, 1980.

as regards the impossibility of generalizing this consumption behaviour to Argentina and Uruguay, the indirect data on real wages and the functional distribution of income in these two countries seem to confirm that similar behaviour is to be observed. The results given by comparison of the two consumption surveys in Chile show the consequences of income concentration according to the real purchasing capacity in the matter of consumption. Since the drop in the expenditure of the lower strata can hardly be attributed to an increase in saving

Table 9
GREATER SANTIAGO: STRUCTURE OF EXPENDITURE, BY QUINTILES, 1969-1978

Item	I		II		III		IV		V	
	1969	1978	1969	1978	1969	1978	1969	1978	1969	1978
<i>Food</i>	52.2	59.3	44.9	56.0	44.1	53.2	36.1	47.6	28.7	32.1
— Cereals, starchy foods, milk products, eggs	17.2	23.4	14.3	19.4	12.9	16.8	11.0	14.0	7.1	7.9
— Others	35.0	35.9	30.6	36.6	31.2	36.4	25.1	33.6	21.6	24.2
<i>Clothing and footwear</i>	8.5	5.6	10.4	7.2	11.4	7.9	13.1	8.0	13.3	7.7
<i>Housing</i>	25.4	17.9	26.3	14.7	27.5	15.9	30.9	18.1	35.9	20.1
— Basic expenses	23.1	15.7	24.2	12.6	25.3	12.7	27.7	14.8	30.2	14.0
— Operation and services	2.3	2.2	2.1	2.1	2.2	2.4	3.2	3.3	5.7	6.1
<i>Transport</i>	3.7	5.6	3.1	6.5	3.4	6.9	3.8	8.5	4.8	15.9
<i>Durable goods and recreation^a</i>	2.5	4.1	5.9	6.6	6.1	6.7	6.0	7.4	7.0	8.8
<i>Personal care</i>	1.8	1.8	2.3	2.0	2.4	2.0	2.5	2.8	2.6	1.9
<i>Health</i>	1.2	1.8	1.3	2.0	1.3	2.2	1.3	2.8	1.5	4.1
<i>Education</i>	0.4	0.7	0.4	0.9	0.7	1.4	0.9	2.1	1.5	4.0
<i>Others</i>	4.2	4.4	5.4	4.3	3.6	3.8	5.4	3.7	4.7	5.5

Source: National Institute of Statistics, *Third Family Budget Survey*, 1978; ECIEL, *Estudio sobre Patrones de Consumo e Ingreso*, 1969, the Brookings Institution.

^aIncluding furniture, fittings, decorations and household equipment.

or other alternative use of family resources, table 9 accurately reflects an absolute deterioration in the possibilities of real expenditure by the middle and lower strata.

3. The structure of consumption

Methodologically, analysis of the diffusion of durable goods has always been made by taking horizontal percentages where the base 100 is made up of the total expenditure on each category. While this type of analysis is useful for determining where demand for a particular good or service is located, it does not tell us anything about the expenditure strategy of each stratum of income recipients, nor does it add any significant information to help us to know the preferences or relative valuation regarding the different categories of consumption at each level of the social stratification. In contrast, a vertical analysis of the basic table (expenditure on consumption by categories, distributed by levels of income) offers adequate information for finding out the consump-

tion strategies at each level of income recipients.

Table 9 shows the structure of expenditure by quintiles for the years 1969 and 1978 respectively,⁴³ and indicates some of the main changes attributable to the new model:

Firstly, in the comparison between the figures for 1978 and 1969, food was one of the categories most affected by changes, both in global structure and by quintiles. Average expenditure on food, for all households, grew from 31.6% to 41.8% during this period. At first sight, it might be thought that this represents a family strategy tending to increase the share of food in the family budget.

⁴³Because of the different sources of the tables, the quintiles are arranged in one case (ECIEL) according to income, while in the family budget surveys they are arranged according to expenditure. These differences are not significant, however, if we are comparing the extreme quintiles, since the correlation between expenditure and income is very high. The distribution of expenditure in the ECIEL survey is therefore very similar to that in table 8; the bottom quintile shows participation of 7.9%, while the following quintiles show 11.1, 14.8, 24.1 and 42.3% respectively.

However, this is not so in all cases. The percentage increase in expenditure on food recorded for all economic levels together actually conceals very different types of behaviour. In the first place, the growth in the proportion of expenditure devoted by the poorest strata to food does not mean that there was absolute growth: in reality, the households in the bottom quintile spent less on food in absolute terms in 1978 than in 1969. The 52.2% recorded for expenditure on food in 1969 for the bottom quintile corresponded to an average monthly income of 5 953 pesos (at december 1979 prices), thus giving an approximate monthly expenditure on food of 3 107 pesos. The 59.3% recorded for expenditure on food in 1978, however, corresponded to an average monthly income of only 4 112 pesos, however, or 2 437 pesos spent on food. Secondly, and for the same reason, in the top quintile the percentage increase in expenditure on food corresponds to an increase which is much greater in absolute terms: in 1969 the expenditure on food was 10 000 pesos, while in 1978 it was 12 936 pesos. Thirdly, the increase in expenditure on food is strongly affected by changes in the relative prices in this period between food products, industrial products and imported goods. In particular, during the period 1969-1978 a clear tendency is observed towards a disproportionate increase in the relative prices of food products with relation to durable goods and above all imported products. The information provided by the wholesale price index indicates that in the period 1974-1980 the increases in prices of agricultural, industrial and imported goods followed very different paths. Whereas the index for agricultural products rose, with reference to a base of 100 for 1974, for 5 734 in december 1979, the index for industrial products at the latter date came to 4 453 and that for imported goods to 3 917. The price relation between agricultural products and imported products at the end of 1979 was 1.7, while between agricultural and industrial products it was 1.3.

Taking as an example the bottom quintile, corresponding to the poorest income recipients, it is observed that although the percentage spent on the consumption of food increased, in absolute terms there was a deterioration of almost 20%. Coinciding with the

results of Foxley (1980), table 10 shows a deterioration in basic consumption of food by the poorest households equivalent to a reduction of approximately 20% in real terms over the period 1969-1978.⁴⁴ It can also be seen from table 10 that the composition of the food purchased by the lowest strata underwent changes too. Family expenditure tends to reflect more spending on such foods as flour, cereals and starchy foods compared with other products such as meat, fruit and vegetables.

Although the variations in the relative prices of the different categories of foodstuffs do not permit a direct inference of the real significance of the percentages, at all events the behaviour of the two main subcategories of foodstuffs indicates that: (a) there is a tendency which causes the elasticity of the poorer foodstuffs (flour, starchy food, etc.) to decrease, that is to say, for the proportion of expenditure on these categories to go down as one rises in the level of stratification; and (b) the opposite takes place with the richer foodstuffs: the proportion of expenditure tends to be equal for the different quintiles.

Whereas the poorer foodstuffs show an elasticity tendency which characterizes them rather as indispensable necessities, in contrast, the behaviour with regard to the consumption of meat, vegetables and fruit places these closer to 'luxury' goods.

Secondly, another type of evidence can be obtained from the tables in question. In contrast with what happens in the case of food, the proportion of expenditure devoted to housing and clothing goes down evenly for the whole population. With regard to all the other categories, however, the results indicate that the proportion of expenditure devoted to the consumption of durable goods, recreation,

⁴⁴The family shopping basket on the basis of which household expenditure is calculated corresponds to the 'average family', which naturally does not suitably represent the consumption structure of the poorest strata. Even more important, the structure of expenditure by categories of the 'average family' on the basis of which the cost of living was estimated in 1978 corresponds to an upper middle class family located between the fourth and fifth (top) quintiles. For this reason, the estimates of the consumer price index are not satisfactory for the correct interpretation of the results of the relative increase in expenditure on food consumption in the period 1969-1978.

Table 10
CHILE: CONSUMPTION OF BASIC PRODUCTS BY HOUSEHOLDS
(Pesos at June 1978 prices)

	Quintile I			Quintile V		
	Consumption		Percent- age variation	Consumption		Percent- age variation
	1969	1978		1969	1978	
Flour and starchy foods	387.6	406.8	5.0	778.6	719.6	-7.6
Meat	357.9	219.1	-38.8	1 543.5	1 627.2	6.0
Oil	105.4	71.2	-32.4	269.4	201.0	-25.4
Milk products and eggs	138.9	106.1	-23.6	618.3	641.5	3.8
Vegetables and pulses	144.0	97.5	-32.3	257.9	197.4	-23.5
Sugar	97.0	73.4	-24.3	191.8	154.2	-19.6
Energy and fuels	227.3	181.8	-20.0	501.6	641.1	27.8
Urban transport	129.8	102.9	-20.7	277.8	284.5	2.4
Total	1 587.9	1 258.8	-20.7	4 430.0	4 466.5	0.8
Percentage of total consumption		49.9			18.0	

Source: National Institute of Statistics, *Family Budget Survey*, 1969 and 1978.

transport, education and health services increases in an even manner. The expenditure required by some categories such as transport may be attributed principally to factors exogenous to the process, deriving from the increase in world petroleum prices in the period considered. The proportion of expenditure devoted to durable goods and recreation, on the other hand, seems to be in line with sustained pressure to promote greater consumption of modern goods and services. With regard to education and health, the increase in the proportion of expenditure is difficult to interpret, since it could be due to equally significant pressure for access to goods which are indispensable—or considered to be indispensable, as in the case of education—or it could be due to the policies aimed at promoting private enterprise which, within the lines of the openness models, tend to involve the increasing withdrawal of the State as the basic entity for the provision of certain services.

Thirdly, the internal reallocation of family budgets to favour certain categories of consumption at the expense of others does not indicate either, as in the case of food, whether the greater share of a certain category of consumption in the global family budget represents an improvement in real terms.

When the above differences with regard to the absolute figures devoted to the average monthly consumption of each category by quintiles are analysed, changes of considerable magnitude are discovered.

In the poorest stratum, the decreased share of housing and clothing in the total family budget corresponds to an absolute deterioration which is greater than that indicated by the percentage reduction.

The consumption categories which increase in the family budget of the poorest families, for their part, do not all indicate a similar behaviour in real acquisition terms.

Expenditure on durable goods and recreation increases in absolute terms from 150 pesos to 170 and expenditure on health rises from 71 pesos to 74, while expenditure on education rises from 24 pesos to 29.

Thus, in actual fact there is only one category of consumption where the expenditure of the poorest strata grows significantly in absolute terms: namely, durable goods and recreation expenditure.

In the highest stratum, the decreasing share of housing and clothing also corresponds to variations in absolute expenditure. Housing represented expenditure of 10 526 pesos in 1969, while in 1978 it went down to 8 065

pesos. Clothing and footwear, for their part, went down from 4 635 pesos in 1969 to 3 062 in 1978.

The biggest increase in absolute terms likewise corresponds to the durable goods and recreation category, which rises from 2 439 pesos per household on average, to 3 548 pesos in 1978. Education rises from 522 pesos to 1 612, while health increases from 522 to 1 652 pesos.

While the structure of family expenditure in the lowest strata shows an absolute deterioration in the case of food and basic expenditure on housing, clothing and health, there is an increase above all in expenditure on durable consumer goods and various forms of recreation. At the other extreme, while there is both a relative and absolute increase in expenditure on food and the levels of quality and sufficiency of this category are undoubtedly maintained, there is a proportionate decline in the expenditure on clothing and housing, while there is a smaller rise in spending on the consumption of modern goods and services. This is accompanied, in the case of the higher strata, by a considerable increase in the share accounted for by education, health and transport, the latter obviously being determined by the possession of an automobile.

The concentrative effects thus do not make themselves felt in the same way in each of the categories of consumption. In most cases, the differences between the top stratum and the bottom stratum on average have doubled in the period under consideration, but in the most extreme cases the relation between the amount of money spent by the top stratum and the bottom stratum even quadrupled (see table 11).

The three categories which showed most concentration during the period 1969-1978 are thus transport, health and education. The first of these may be attributed to factors unconnected with the changes resulting from the new policies, but not the latter two.

Both health and education, which already showed relatively high values of elasticity in 1969 (0.844 for health and 1.210 for education), grew significantly in 1978.⁴⁵ Whereas in the

Table 11

RELATION BETWEEN ABSOLUTE SPENDING OF STRATA V AND I, BY CATEGORIES OF CONSUMPTION

Category of consumption	Expenditure of stratum V/Expenditure of stratum I	
	1969	1979
Food	3.21	5.31
Clothing and footwear	9.16	13.30
Housing	7.00	10.95
Transport	9.04	27.88
Durable goods and recreation	16.20	20.87
Personal care	5.47	10.32
Health	7.35	22.34
Education	21.75	55.62

first of these years the percentage difference between the extreme strata indicated in table 9 was the gap between 1.2% and 1.5% in the case of health and between 0.4% and 1.5% with regard to education, these gaps increased markedly to the difference between 1.8% and 4.1% for health and between 0.7% and 4.0% for education.

Here too the behaviour of the two categories would appear to indicate that they have become more and more 'luxury' goods.

With regard to durable goods and recreation, the results show an increase in the inequality, which was already high to start with, but not to the extent of other consumption categories. These results derive from the very uneven behaviour of the total number of goods grouped together in these categories. Thus, for example, the high concentration in 1978 was very much influenced by the automobile category, whereas the behaviour of other goods, as we shall see below, was distributed in a more equalitarian manner.

To sum up, the systematic behaviour of all the family consumption items in the period 1969-1978 shows not only the strong concentra-

⁴⁵P. Musgrove, *Consumer Behavior in Latin America*,

Income and Spending of families in ten Andean Cities, The Brookings Institution, 1978.

tive effect, but also the type of goods and services most affected by the regressive process.

Finally, it is worth recalling that the inequalities revealed by comparison between the low and high strata correspond to extreme inequalities within the household sample analysed. The inequality is obviously much higher than that observed between adjacent quintiles, and also conceals certain phenomena of partial deconcentration which occur in some parts of the stratification.⁴⁶ At all events, it is also true that the inequalities observed between quintiles I and V do not reflect the overall inequality of the society studied either, since the survey only covered Greater Santiago. To sum up these considerations, we may say that the expenditure on durable goods, in general terms, appears to be in line with income, although it is very much affected by other factors: it shows that the pressure in favour of forms of consumption of a modern nature may produce an increase in expenditure on these categories without any corresponding increase in income, and possibly even when income deteriorates.

Moreover, the structure of family spending shown in table 9 enables another fact to be confirmed: to the extent that the income of the lower strata improves —assuming the hypothesis of upward mobility— the orientation of the consumption expenditure is not necessarily directed towards the fuller satisfaction of basic needs.

The considerations deduced from the foregoing tables are shown in the structure of expenditure and its concentration for each category of consumption. This is the type of horizontal analysis to which we referred earlier and to which we will also refer below.

The structure of expenditure by categories for the different income levels permits a fairly satisfactory approximate estimate of the diffusion of durable goods. The consumption behaviour in the case of Chile, as seen through

the same surveys analysed, shows a high concentration of expenditure which increases in inverse proportion to the essential or indispensable nature of the type of good considered.

Let us examine this by parts: firstly, in contrast with what might be expected in view of the high concentration of income and the recessive process with regard to family consumption budgets, it is observed that the diffusion of durable goods and recreation activities corresponding to a modern lifestyle is notably high in the case of certain goods (see table 12). Undoubtedly this situation is not merely the result of the changes which have taken place as a result of the new models: Chile, like Argentina and Uruguay, had already begun much earlier a sustained process of modernization of consumption patterns.

By way of comparison, and in order to make the analysis more relative, we can take the concentration of food purchases as a frame of reference, since this is traditionally one of the least concentrated categories.⁴⁷

Some goods, such as refrigerators, cookers, gramophones and radios, show a very high degree of diffusion. Only the bottom 20% are excluded in practice from expenditure on these items, while the next 20% register relatively low participation. For quite a wide range of durable goods, however, the participation covers the top 60% of the social stratification. The behaviour of expenditure on television, in particular, is surprising: it is the least concentrated item of all, even less concentrated than food, thus confirming everything said earlier regarding the central role played by the diffusion of this item;⁴⁸ the same is not true, however, with regard to colour television or other items of high unit value.

⁴⁷It should not be forgotten that the data analysed do not refer to the whole country, but only to the urban part of Greater Santiago, so that the concentration observed is less than that corresponding to the country as a whole.

⁴⁸It should be noted in this respect that the concentration of expenditure on a good which is in rapid expansion corresponds to the concept of diffusion in terms of the possession of the good. In fact, in a situation of this type, the concentration of expenditure reflects rather the impact of the strata which are making up for the distance separating them from those which traditionally already possessed such goods.

⁴⁶Some deconcentration is occasionally recorded between the top stratum (V) and the following stratum (IV). The magnitude of this, however, is extremely small: thus, for example, with regard to expenditure on education, for every unit spent by stratum IV in 1969, stratum V spent 5.6 units, while the figure for 1978 was 4.9 units.

Table 12
GREATER SANTIAGO: CONCENTRATION OF CONSUMER GOODS, BY INCOME
QUINTILES, 1978

	Low I	II	III	IV	High V	Total
Food	7.3	16.0	18.7	19.1	40.9	100.0
TV (black and white)	9.9	22.7	27.4	21.3	18.9	100.0
Gramophone	1.0	9.0	27.3	27.1	40.0	100.0
Portable radio	9.3	16.0	23.5	18.2	32.9	100.0
Perfumery and toiletries	6.6	12.0	16.8	24.9	39.7	100.0
Refrigerator	2.5	9.8	17.8	26.2	45.0	100.0
Radios	0.1	11.0	11.1	22.9	54.9	100.0
Vacuum cleaner	0.0	0.0	2.3	39.7	58.0	100.0
Musical and optical instruments	1.1	5.5	13.5	20.3	59.6	100.0
Toys and recreational articles	2.1	5.7	8.9	22.3	61.0	100.0
Tape recorder	0.0	13.4	3.2	20.3	63.0	100.0
Cooker	2.0	18.0	2.0	10.6	68.0	100.0
Total sound reproduction equipment	5.6	16.0	18.7	19.1	40.9	100.0
Tobacco and other imported products	0.0	0.2	3.6	4.5	91.7	100.0
Automobiles and motorcycles	0.0	0.0	0.0	2.6	97.4	100.0
TV (colour)	0.0	0.0	0.0	0.0	100.0	100.0

Source: National Institute of Statistics, *Family Budget Survey*, 1978 (Foxley, 1980).

If we bear in mind that an equalitarian distribution would involve values of 20% for each stratum, the overall category comprising all recreational equipment (television, radio, tape recorders, etc.) shows a much more equalitarian distribution than the distribution of income in the general structure of consumption.

Other more 'sophisticated' items which are of higher unit value or less accessible such as imported products: tobacco, liquors, hi-fi equipment, tape recorders, musical instruments, toys, cinematographic equipment, etc., are found in contrast to be more concentrated in the 40% or even the 20% of the population receiving the highest incomes.

Another aspect which should not be overlooked, and which partly explains the considerable diffusion of durable goods, is that the unit prices vary considerably according to quality and characteristics. In reality, the 'downward' diffusion of durable goods is more substantial and less concentrated than that normally registered by expenditure on each item, this being due to the growing stratification produced among these goods, favoured by the

opening up of imports. In a random survey carried out in 14 shops in the centre of Santiago in October 1980 (5 large shops, 5 medium-sized ones, and 4 small ones), the variation observed between the unit prices of a given article was considerable. Thus, for example, it was found that the unit prices of colour television sets showed variations of approximately 2 to 1; the most expensive black and white television sets were 4 times as expensive as the cheapest ones; and this factor of difference was 5 to 1 in the case of portable radios, table radios and cookers; 25 to 1 in the case of watches; 4 to 1 in the case of radio-cassette recorders; 3 to 1 in the case of hi-fi equipment; 20 to 1 in the case of gramophones, and 10 to 1 in the case of tape recorders. If we also bear in mind that the type of marketing generated by the financial policy of the openness model has increased the proportion of hire-purchase sales (with terms of between 6 and 24 months, according to the unit price of the good), and that the second-hand market increases the price differences for a given type of good in some cases to more than double, an approximate idea can be obtained of the relative variations in access to these goods.

In practice, then, and although the differences in household income may be extremely substantial (as may be seen from tables 8 and 9), this does not mean that the differential diffusion of durable goods will maintain the same proportion as differences in income. In the case of a considerable number of durable goods, two households with significant differences in income may possess virtually the same quantity of goods, although their differences of quality and other characteristics may make one of them a poorer, less up-to-date or more mediocre version of the other.

Finally, if we compare the distribution of durable goods as between 1969 and 1978, we get the impression that the diffusion of these goods is now greater than in 1969 and that the downward expansion has operated in a sustained manner in the case of many consumer goods and articles.⁴⁹

Secondly, the extraordinary concentration of consumption, in which the demand for certain goods is restricted to a small sector (20%),

is to be found more easily in other aspects of consumption behaviour (see table 13). The consumption indicators which best record the concentrative pattern of the models appear, of course, in some categories such as automobile ownership, which is restricted practically to 20% of households, and a number of recreation and leisure activities associated with the modern life-style. The most expensive forms of sport; demand for classes in various activities such as dancing, sports, recreation, etc.; participation in shows and entertainments; domestic consumption outside the home in restaurants, places of recreation, etc., and expenditure on travel and in hotels are markedly concentrated in the richest 20% of income recipients. In addition, it is necessary to add the consumption shown in table 12 of imported goods of high unit values such as colour television, hi-fi equipment, and imported beverages and tobacco.

Education, for its part, is one of the most concentrated types of expenditure of all household consumption categories. In principle, this pattern should not be surprising, because school attendance is highly concentrated and access to primary, secondary and university education is distributed in an unequal manner. It could therefore be sustained that the concentration of educational expenditure is simply a reflection of the inequality of access to the different levels of education and does not therefore add much to our knowledge of one of

⁴⁹In this connexion, the comparability between the household surveys for 1969 and 1978 is rather complicated, since the data available for 1969 disaggregate the concentration of expenditure into minimum wage units and not quintiles. Although the ECIEL study carried out on the basis of these surveys makes it possible to reduce the distribution by deciles to quintiles, it raises problems of the comparability of the categories as aggregated.

Table 13

GREATER SANTIAGO: CONCENTRATION OF EXPENDITURE BY INCOME QUINTILES, 1978

	Low I	II	III	IV	High V	Total
Entertainment and shows	0.8	2.7	6.8	18.2	71.0	100.0
Sports equipment	0.0	3.3	6.4	7.2	83.0	100.0
Various types of lessons	0.0	3.2	0.0	8.8	88.0	100.0
Travel and hotels	1.5	0.0	2.0	12.8	82.5	100.0
Rental of sports equipment	0.0	0.0	0.0	13.3	86.7	100.0
Education	1.2	3.0	6.9	15.0	74.0	100.0
Public	2.3	7.0	10.0	16.1	64.6	100.0
Private	0.0	0.1	5.3	13.7	81.6	100.0
Health	2.8	5.6	9.1	18.0	64.0	100.0

Source: National Institute of Statistics, *Family Budget Survey*, 1978.

the best-known features of inequalities in the region. The importance of education as a filter controlling access to a 'scarce good' and essentially a 'positional' good is clear, however, from the curves of inequality shown below (see figure 1). As may be seen from these, inequality in school attendance is much less than the inequality of the resources which households devote to the perpetuation of this social privilege transmitted to the new generations. The Gini index determined in 1960 for inequality of school attendance in Chile amounted to .34.⁵⁰

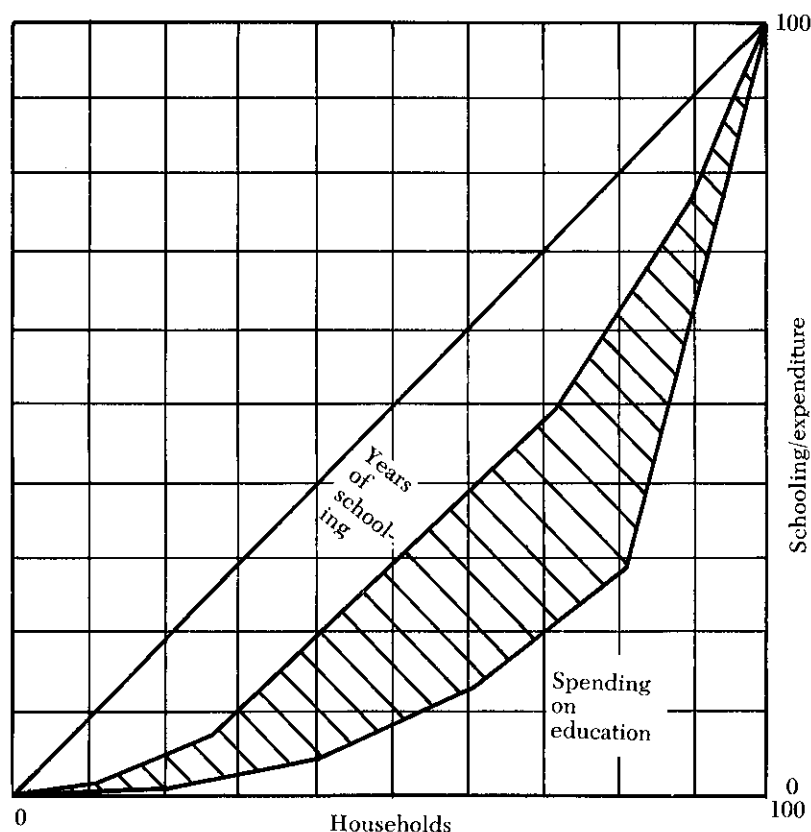
⁵⁰C. Filgueira, "Expansión educacional y estratificación social en América Latina". CEPAL-UNESCO-UNDP, Buenos Aires, 1978.

The Gini index for the institutional costs in the same period was .46, which reflects the extra inequality added to that involved in school attendance when we take into account the differential costs of each cycle of education. Moreover, in 1978 the inequality displayed by the resources spent by households on education came to values equivalent to a Gini index of .68.

There can be no doubt that the handing over of education to private enterprise—an aspect which is likewise contained in the general policy of the models—has repercussions on these results. As a global indicator, enrolment in private schools is clearly more concentrated than enrolment in public schools, as

Figure 1

**CHILE: CONCENTRATION OF YEARS OF SCHOOLING
(1970) AND SPENDING ON EDUCATION (1978)**



Source: C. Filgueira, "Expansión educacional y estratificación social en América Latina", *op. cit.*, 1977; National Institute of Statistics, *Family Budget Survey*, *op. cit.*, 1978.

may be seen from table 13. Consequently, it was only to be expected that between 1969 and 1978 the concentration of expenditure on education should undergo a slight reduction towards the upper middle strata, attributable to the growing tendency of educational policies to hand over education to private enterprise. The State no longer regards its educational functions as a service of social importance. This slight deconcentration, together with a general growth in spending on education, visible in all quintiles of income recipients, confirm the strong derived pressure of a highly valued good which is becoming increasingly competitive in the private sphere.

Health, for its part, although showing a somewhat different behaviour, also follows a broadly similar pattern, although in this case the concentration tends to grow much more than in the case of education.

Finally, the structure shown by expenditure in the new models, in proportion as income is increasingly concentrated, also has direct consequences on a demand for services characteristic of modern styles of consumption. The upper strata, and especially the top 20% of income recipients, require tertiary activities connected with the expansion of their life-style patterns. The effect that this has on the employment structure, as a dynamic factor of demand for service activities, helps to reinforce a tertiarized structure. This aspect has been pointed out as a characteristic feature of the

openness models and appears very clearly in the make-up of the sectoral structure of the economically active population. In this respect, too, Chile may be an extreme example of the tendencies of rapid and profound openness: in 1978 almost 20% of the expenditure of the top 20% of income recipients went to swell the demand for services from the tertiary sector.

Expenditure by the top strata on general household services, expenditure required by automobile ownership (not including repairs and maintenance), various recreational services, consumption outside the home in restaurants, hotels and places of entertainment, domestic social events, various repairs (dwelling, appliances, etc.), domestic services, personal care services and education make up approximately 20% of the total consumption expenditure of these households.

The increase in employment in the services sector recorded between 1970 and 1977 (from 26.0% to 34.7%, according to A. Foxley) is not therefore the exclusive result of the growth of activities in the low-productivity informal sector due to the 'artificial' creation of certain occupations; it is also the result of dynamic demand by the upper sectors. The top 40% of income recipients, through their expenditure on these services, create a demand for such activities equivalent to the total expenditure of the bottom 40% of income recipients.

V

Summary and final considerations

The preceding chapter was devoted to showing the main patterns of behaviour adopted by consumption under the economic stabilization models. The objective of this concluding chapter is, on the one hand, to summarize the principal tendencies identified and, on the other, to postulate some of the theoretical problems deriving from the behaviour of demand in the new models.

1. In this study the patterns of behaviour of

consumption have been perceived primarily as the result of a particular type of growth strategy characterized by the progress of consumption with respect to production. For this reason, the economic stabilization models may be located in the general category of backward societies which, when they try to make up for 'lost time', increase the gap between the real production capacity and the levels of material well-being expressed in consumption.

Summing up the main characteristics adopted by consumption in openness models, it may be said that the empirical evidence assembled by the foregoing analysis reveals a type of behaviour expressed through:

(a) spectacular growth of the consumption of modern goods, especially durable goods and material objects, 'sophisticated' consumer goods for the home, recreation and personal care, and food, beverages and tobacco, all of them corresponding to levels and styles of consumption typical of the most highly developed countries;

(b) a drastic change in the origin of the products consumed, which now come mainly from abroad; thus, importation becomes the mechanism *par excellence* permitting the change in consumption patterns;

(c) growing diffusion of modern life styles and certain types of goods to the middle, lower middle and lower strata, especially in the case of those articles and items of lower unit cost;

(d) growing inequality in the allocation of expenditure for the consumption of basic goods such as food, footwear, clothing and housing, thus leading to deterioration of the family 'shopping basket' and insufficient coverage of basic needs in the lowest strata;

(e) all this, of course, takes place within a regressive process of distribution of income and growing concentration of wealth.

The chapters before the analysis of consumption in the economic stabilization models, especially chapters II and III, sought to establish an interpretative framework in order to explain this type of patterns. In particular, it was sought to suggest some ideas to explain the apparent contradiction involved in a system which tends to growing inequality as regards income and the possibilities of satisfying basic needs, but at the same time permits considerable downward diffusion of modern-type goods.

For this, it was necessary initially to stress the social dimension of the phenomenon of consumption in view of its close relation with the theory of value, and it was therefore treated as a specific interface between economics and sociology. This, in turn, led to the need to make a critical discussion of some of the basic assumptions of 'rational consumer behaviour',

proposing alternatively, as explanatory elements which permit the interpretation of this apparent contradiction, certain mechanisms of social dynamics taken principally from the theory of sociology and cultural anthropology.

This brief reference to the central points of the present study made it possible to characterize in another way the phenomenon of consumption in the stabilization models, and it also made it possible to discuss from another angle some of the main interpretations formulated regarding these models.

It is only of interest here to refer to the two main interpretations which have sought to give proof of the success or failure of the models as expressed through consumption.⁵¹

The defenders of the openness models have stressed the downward diffusion of durable goods and modern styles of consumption. The extensive scientific, journalistic and official literature has maintained that among the main credit points of the new strategy must be considered the greater availability of durable goods, as the expression of a new goal to be reached, and indeed already being attained in part. The diffusion of domestic electrical appliances, especially television sets, radios, household appliances and other consumer items typical of modern styles is presented as one of the most notable proofs of the success of the new models.

Other analysts, in contrast, taking a critical view, feel that it is necessary to consider the concentrative effects regarding income and the deterioration in the basic needs situation. In this case, the consumption indicators place stress on the reduced access to indispensable goods, especially food, housing and clothing,

⁵¹Here we are referring exclusively to the consumption aspects, but we are not ignoring the fact that the discussion was centered much more in the field of economics. According to their defenders, the virtues and achievements of the models seem to have consisted mainly of the placing of the economies on sound basis, success in non-traditional export policy, economic recovery as indicated by growth of gross domestic product, favourable balance-of-payments situations and, in some cases, reduction of rates of inflation. The critical literature, in contrast, has indicated as the most serious problems of these models the deterioration of employment, economic inequality, external indebtedness, a drop in rates of investment, deficits on the trade balance, the destruction of domestic industrial capacity, and at the same time unproductive tertiarization.

and above all the growing deterioration of the family shopping basket and essential health care requirements. Here the conclusions are obviously different and the economic stabilization models are criticized as extremely concentrative and leading to increasing poverty. These are undoubtedly some of the most obvious 'social costs', to which the bibliography contains many references.

Neither the 'critical' nor the 'favourable' literature, however, has been able to get away from the prevailing 'dialogue of the deaf', because the most extreme interpretations carry out the analysis on a partial basis, restricting it in both cases to particular areas of consumption considered in isolation.

It is quite true that the diffusion and penetration of certain types of durable goods and imported objects into the middle and lower strata forms one of the clear features of the new structure of consumption, but this cannot be adopted *a priori* as a safe indicator of the 'soundness' of the model.

As is well known, in the most highly developed societies the consumption of modern goods and the forms of recreation and leisure characteristic of the welfare state represent a phenomenon which took place *after* satisfactory coverage of basic needs had been achieved. This is not so in the developing countries, however, and all the studies on consumption coincide in pointing out that while overall levels of food, health and housing continue to be markedly deficient, the consumption of durable goods and the presence of modern appliances in many of the households suffering from such deficiencies is commonplace.

Furthermore, it is also true, as we have seen in the preceding chapter, that among the 'social costs' of the stabilization models is the growing precariousness of levels of basic consumption and the increased inequality. In spite of this, however, the social consequences resulting from the application of the new models are by no means limited to these manifestations, and others which are perhaps more important and to which we will return later are overlooked.

2. In practice, there is no real contradiction in the behaviour shown by consumption in re-

sponse to the new economic, social and political conditioning factors. Perhaps there is nothing new which cannot be illustrated from past experience.

When the critical literature stresses the growing inequality with regard to basic needs, it is actually pointing out a problem which had already been referred to in anthropological studies on societies in a rapid process of monetarization. The study of the passage of societies from subsistence economies to market economies, or economies increasingly influenced by the modern monetary economy has shown that "in general the effect of the introduction of commercial crops or wage-based economies on nutrition has been to lower its level by disturbing the balance reached in the subsistence economies, putting forward processed foods as those with higher 'prestige' and limiting the volume and quality of subsistence crops in favour of commercial crops or reducing the time spent on the preparation and preservation of food for domestic consumption". "It has been noted that not only do people often waste their money on almost any new object, but also the unaccustomed spending of emulative type may lead to moral decadence and permanent loss".⁵²

As a general rule, the basic levels of food and subsistence suffer whenever utilitarian stimuli and modern consumption burst in through rapid and deeply disturbing processes. The classic study carried out by the American Geographical Society in 1953 showed that of the total number of primitive communities studied (209), only 6% showed significant deficits with regard to nourishment at all levels (calories, etc.) and a further 3% had insufficient diets as regards calories, while the remaining 91% had levels that were fully satisfactory in the light of the characteristics and habitual forms of life of the communities. In contrast, most of the regions of the Third World completely or almost completely incorporated into the market economy, especially in the case of certain regions in Africa, Asia and part of Latin

⁵²See E.E. Hoyt, "Money Economy and Consumption Patterns", in N. Smelser (ed.), *Reading on Economic Sociology*, Prentice Hall Inc., 1965.

America, consistently displayed insufficient levels of nourishment.⁵³

Although in our case we are not dealing with real subsistence economies or with the rapid introduction of a process of monetarization of the economy into extremely primitive States—a situation which could only exist in subsectors of the countries studied—it is nevertheless true that the process of openness typical of these economic stabilization models has many parallels with the examples referred to. The preferences and 'tastes' for everything new in contexts with a high degree of social integration lead to important changes in the composition of the structure and strategies of consumption, generally to the detriment of preferences for traditional goods or those perceived as such.

It is worth considering these examples here because they bring out the fact that the really complex—and undoubtedly dramatic—nature of the growing precariousness characteristic of these situations does not derive automatically from processes of concentration of incomes and impoverishment of the lower levels of the social strata. In actual fact, the 'critical' literature only partially picks up some of the most obvious consequences of the openness models and does not go much further in this respect. There are other consequences which, when the behaviour of the consumer is perceived through determining elements more complex than income, orient the diagnoses in another direction. We have seen that these consequences are expressed above all in the field of social and political relations.

3. The new patterns of consumption considered to be the result of the new models are undoubtedly the most tangible and evident part of the new social behaviour induced, but it should not be forgotten that they are only *part* of the attitudes and tensions arising in society, which actually involve all spheres of behaviour. It is this complex set of relations, values and social meanings which gives significance to the particular behaviour adopted by consumption.

According to what we saw in the preceding chapters, the openness models involve a radical transformation not only of economic behaviour, but also of the basic forms of relationship of individuals with each other and with institutions and society as a whole; and above all, they involve a change in the forms of competition and solidarity which make up the moral basis of the system. The discussion in chapter II was aimed precisely at identifying the main changes which have taken place in this system. The utilitarian stimuli generalized through the growing presence of private enterprise, favoured by the economic measures and with the blessing of the legitimacy given by the prevailing ideology; the growing dependence on more 'sophisticated' forms of publicity; the prevalence of restrictive forms of social participation, and the devaluation of the sense of work as a form of realization *per se* have all helped to ensure that the horizon of individual orientation and personal identity is organized around consumption, fashion and forms of emulation.

The goal of reaching ever higher levels of material consumption becomes the ultimate objective of human existence and the fundamental principle of work. More and more, everyone works in order to consume, the gratification derived from work decreases, and in this way the stimuli for creativity disappear and are substituted by growing passivity and ritualism. The gratification which could be derived from the shared sense of participating in and contributing to the development of the community and society is displaced in favour of abstract, impersonal and 'self-regulating' mechanisms which are assumed to be those responsible for transforming exaggerated individual competition into social solidarity. The individual does not form part of this process, however, and there is no gratifying sense of commitment in carrying it out.

Imitation is the main stimulus for action and consumption is the indicator of the success achieved, of prestige and the social recognition of others, and hence of satisfaction itself.

The degree of individualization and atomization increases with the lack of mechanisms and institutions which can act as intermediaries between man and society, and the

⁵³American Geographical Society, *Study in Human Starvation, Atlas of Diseases*, New York, 1953.

feeling of defencelessness finds in consumption a form of satisfaction of basic tensions and fundamental psychological needs.

The possession of material goods, which operates as a system of information with precise symbolic content, is capable of absorbing these tensions but not solving them: rather, it makes necessary the continual and repeated change of new material objects as a way of compensating the permanent sense of loss.

This process not only has its effects at the individual level: the changes also come to affect the basic institutions of society. As J. Graciarena points out, the new consumerist style resulting from the models which bring in a deeper version of capitalism causes changes in the nature and sense of social institutions: even such stable institutions as the family.

"The priority given to consumerism reduces the desirability of the 'bourgeois home'. The formerly inviting bourgeois house is replaced by the apartment, and hospitality moves to restaurants or clubs. The change from the life-style centered around the spacious and comfortable bourgeois home of the past creates intra-family friction, particularly between fathers and sons, which increases the gap opened by the generational conflict"... "The new style of utilitarianism is now individualist rather than family-oriented. The time horizon of the businessman is reduced to his own lifetime, and with it his motive for saving. Versatile and intense short-term consumerism takes the place of the old puritan frugality which was of markedly family-oriented inspiration".⁵⁴

Lower-class urban families—and even marginal and peasant families—are also affected by the priority given to consumerism, although in another sense.

While in the bourgeois family there is increasing discouragement of saving, in the poor families, in contrast, there is a powerful stimulus to indebtedness or to the commitment of future real or expected income, to the sacrifice of consumption of basic goods, and to the

internal reorganization of the family budget as a function of modern consumer goods. Certain members of lower-class families are more exposed to the persistent publicity and new consumerist styles. In particular, the younger members have a greater propensity to identify in the world of material objects their basic psychological needs, so that the inter-generational conflict is also heightened by the uneven incidence of consumerist stimuli within the same family. Not only does the pressure of publicity find in the subcultures of the young one of its most important classes of clients, but it also tends to give form and content to these subcultures by offering them a ready-made body of symbols and representations.

The extent to which a conflictive transformation takes place within the family in an attempt to adapt to the new conditions is difficult to evaluate with the elements available, but there is clear evidence of important changes in family relations and roles. The division of labour within the family, female participation outside the home, the premature interruption of schooling—above all by lower-class girls and boys—are only a few of the most visible consequences of a set of interlinked processes of adaptation of the family structure to the new situation. Parallel with these manifestations—as the studies on survival strategies of the lower classes under economic stabilization models confirm—even more important transformations are taking place in the sphere of the structure of authority, power and legitimacy within the family.

4. It is in the context of the ideas set out in the preceding pages, in our opinion, that the social problems of the model really acquire their true dimension. Beyond the mere recognition of the growing concentration and the deterioration of the degree of satisfaction of basic needs, the behaviour adopted by consumption in these models undoubtedly forms part of a complex readaptation of the social matrix as a whole.

This explains how can there be more television sets at the same time as a deterioration in the satisfaction of basic needs. If the system comes to be based on the principle of the individual responsibility of the consumer and his 'freedom to choose' it would be hard to expect a type of behaviour different from that observed,

⁵⁴J. Graciarena, *Creación intelectual, estilos alternativos de desarrollo y futuro de la civilización industrial* (mimeo), 1980.

since the system is what consumers want it to be.

The implications of this latter principle—which forms part of the ideological basis of the new models—have potential repercussions, as already pointed out, in the political field.

There would appear to be two main conclusions to be highlighted before concluding these final considerations.

Firstly, the consumerist individualism which lies at the basis of the new proposals of the 'social market economies' requires, like any other ideology, a relatively consistent set of ideas to give it legitimacy, quite apart from its technical or technocratic justifications. This requirement is not specific to these models, of course, and forms part of any known system of society. But whenever radical changes take place in the organization of society as a whole, the need to give the emerging system ideological foundations becomes an urgent and inescapable requirement. It should come as no surprise, then, that the search for this body of ideas, based on a new social morality centered around the principle of economic liberty, the principle of the sovereignty of the consumer, and the superfluity of the State as an active agent responsible for safeguarding distribution and social effectiveness has led to the rediscovery of the ethical and philosophical reflections of the theorists of individual liberalism, among whom Friedrich von Hayek undoubtedly occupies a distinguished place.

Undoubtedly the most noteworthy point in this quest for ethical foundations consists of its implications regarding the relationship between individual liberty and political liberty. The reduction of the latter, in the thinking of individualistic liberalism, to a purely instrumental or prudential consideration rather than a guiding principle establishes the most obvious link between economic liberalism (which

has priority) and political democracy (which occupies a secondary place).

The second aspect related to the political manifestations of the new model is of another nature and concerns the consequences of consumerism for the legitimacy of the system.

Here, too, it seems necessary to weigh very carefully the probable consequences of the increase in modern consumption and the diffusion of material goods. The emphasis placed by critics of the system on the regressive aspects of the models, especially as regards their 'social costs', should not lead us to overlook other manifestations of consumption. In addition to the sectors which are fully benefitted by the distributive reorganization carried out by the models, it is necessary to gain a more precise knowledge of the repercussions of the massive penetration of modern goods on the middle and lower classes and on the various sectors and subsectors of these which are adversely or beneficially affected in an uneven manner by the transformation brought about by the models.

Even if it is admitted that the economic measures aimed at favouring modern consumption without any hindrance or protectionism stem only from economic reasons and not political ones—an assertion which is in any case rather questionable—there can be no doubt that the expansion of consumerism can come to play an important role in the legitimation of the system. Whether or not the new models are capable of maintaining continuity in the policy of the expansion of modern consumption is another question which it is very difficult to answer in advance. It would appear, at all events, that in proportion as the stabilization experiments continue to consolidate themselves, the requirements for maintaining the levels of consumption achieved and their growing expansion will be ever greater, and if this cannot be achieved they will be deeply frustrating and conflictive.

Some reflections on South-East Asian export industrialization

*Fernando Fajnzylber**

The successful export strategies of some South-East Asian countries have been raised in certain Latin American circles to the level of veritable paradigms and it is held that our region should imitate these processes in order to achieve high rates of growth of production, employment, productivity and even real remuneration. For this reason, it is of particular interest to analyse the policies, institutional machinery, and domestic and international social and political conditions within the framework of which these cases have taken place.

The present article analyses some aspects of these processes which show the complexity, richness and heterogeneity that characterize them and which make it clear that the lessons that can be drawn from them while richer and more valuable than those deriving from the 'popular' version generally disseminated in Latin America, do not permit their imitative application in this region.

After the Introduction, section II of the article gives a brief description of the main economic parameters of the four countries in question —South Korea, Taiwan, Hong Kong and Singapore. Section III examines the relationship between the export and industrialization policies, section IV raises some aspects of protectionist and import substitution policy, section V analyses the role which the State has played in these strategies, and the last section of the article sets these examples against the international context in which they have occurred.

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I

Introduction

In the rapid industrialization which has taken place since the war, special attention is warranted by the export-led industrialization experience not only of Japan, to which numerous references were made in a previous study,* but also of South Korea, Taiwan, Hong Kong and Singapore, firstly because of the impressive rates of growth and transformation of the structure of production which these countries have achieved in a brief space of time, and secondly, because the success achieved by them has been generating the belief that the experience of these countries forms an example which could and should inspire the future industrial growth of Latin America.

The view is frequently expressed in certain circles in Latin America that the success of these processes is due firstly to their total openness to international trade, and secondly to the very low level of public intervention. In coming to this conclusion, a complex set of different experiences is thus reduced to a conclusion of a normative nature whereby the countries of Latin America need only eliminate their protectionist schemes and reduce public intervention to its smallest possible expression in order to permit the generation of successful export models comparable to those of South-East Asia.

As we propose to show in this study, the mystification implicit in this version of what has happened in the "Newly Industrialized Countries" (NICs) of Asia is particularly serious for two reasons. Firstly, because it prevents us from advancing in our understanding of the factors which really explain these rates of growth and change, thus losing the opportunity of taking advantage of experiences which are undoubtedly valuable both in the fields of policy and of institutional machinery. Secondly, because not only are recommendations made which correspond only to a limited extent to the

*Fernando Fajnzylber, *The Industrial Dynamic in Advanced Economies and in Semi-industrialized Countries*, Pacific Trade and Development Conference, 1980, Seoul, Korea, 1-4 September 1980.

experiences from which they are supposed to derive, but also it is extremely open to question—even leaving aside the political conditioning factors—whether their application to Latin America in the manner suggested could generate results comparable to those observed in the presumed source of inspiration of these recommendations.

For this reason an endeavour will be made in the following paragraphs, although admittedly in a rather sketchy and incomplete manner, to analyse some specific aspects of these forms of experience which show the enormous complexity, richness and heterogeneity characterizing them and make it clear that the lessons

which can be drawn from them are undoubtedly richer and more valuable than those stemming from the 'popular' version so widely disseminated in the region.

First of all, a very brief description of the main economic parameters of the four countries in question will be given, followed by an examination of the relationship between export policy and industrialization policy. Next, aspects of protectionist policy will be discussed, followed by an examination of the role of the State in these models, and finally the international context in which these forms of experience took place will be examined.

II

General background description

Among the four countries considered, it is worth making a distinction between the cases of Hong Kong and Singapore and those of Korea and Taiwan. The first two are city-States with an area of 1 000 km², a per capita income of over US\$ 2 000, —practically no agriculture (2% of the gross product), and a particularly well developed services, commerce and finance sector. The population of Hong Kong is 4.5 million persons, while that of Singapore is 2.3 million. The character of international trading centres which has historically been associated with these city-States is clear when one considers the ratio of international trade to the product, which comes to 183% and 252% in Hong Kong and Singapore, respectively. These city-states, with a population density of over 2 000 inhabitants per km² and almost completely without agriculture must not be analysed using the same patterns as for the other two South-East Asian countries, Korea and Taiwan, which have characteristics comparable to those of the rest of the developing world. Although Korea and Taiwan are geographically small, with areas of 99 000 km² and 36 000 km² and populations of 36 million and 16 million respectively, and with a domestic product which in 1976 was around US\$ 1 000 per person (US\$ 670 in Korea and US\$ 1 070 in Taiwan), the proportion of the

product generated in the agricultural sector in these countries was higher, for example, than in the cases of Mexico and Brazil, for in Korea it was 27% and in Taiwan 12%, while in Brazil it was only 8% and in Mexico 10%. These comparisons with Mexico and Brazil are due to the fact that recent OECD studies include these two countries as the only Latin American representatives of the special group of NICs.

What these four Asian countries do have in common is undoubtedly the very rapid growth of the industrial product, output and exports.

In terms of per capita income, the four countries display a significant growth rate which has enabled them to shorten the distance between themselves and the United States, if the latter country is taken as a reference.

In the case of the city-States, their per capita income in 1963 was 23% of that of the United States in the case of Singapore and 20% in the case of Hong Kong, whereas in 1976 Singapore had risen to a level equivalent to 42% of the United States per capita income and Hong Kong had reached the level of 35%, the figure for Singapore being comparable to that of Argentina and Spain, and that for Hong Kong being significantly higher than that of Brazil, although in 1963 the level had been very similar to that of the latter country. Significant

relative growth is also to be observed in the case of the 'normal' countries of Korea and Taiwan, although starting from lower levels: in 1963 Korea had a per capita income equal to 9% that of the United States, rising to 20% by 1976, while in Taiwan the increase was from 14% in 1963 to 24% in 1976. In both cases, these levels of per capita income were lower than those of Brazil and Mexico.

As regards industrial output, and considering exclusively the market economies, it may be noted that in 1963 the industrial output of these four countries was equivalent to 0.35% of

the industrial output of the market economies as a whole, while by 1976 it had risen to 1.35%. Over the same period, the share of Brazil and Mexico rose from 2.6% in 1963 to 3.9% in 1976.¹ The interesting feature of this industrial growth is the fact that it was accompanied by an impressive expansion of industrial exports, reflected in the increase in the share of the exports of manufactures of these four countries within the world total² from 1.35% in 1963 to 4.0% in 1976. Over the same period, the share of the industrial exports of Brazil and Mexico increased from 0.22% in 1963 to 0.92% in 1976.

III

Industrialization and export strategies

A basic but frequently overlooked element in the strategies followed by these countries is their fundamental choice of industrialization: industrialization aimed at penetrating international markets, perhaps, but industrialization nevertheless. The sustained and persistent dynamic effects which these strategies had in terms of the generation of employment, raising of the level of the skill of the labour force, increased productivity, higher real wages, and generation of consensus regarding the importance of technical progress are intrinsically linked with the basic fact that these countries' exports were industrial products. If the volume of foreign exchange generated by these strategies had originated in the export of natural resources, which in any case these countries lacked, it is very doubtful whether the sustained effects mentioned above would have been comparable. Consequently, it is not the orientation towards exports *per se* which generates these dynamic effects, but rather the basic fact that the products exported, even though involving a high content of imported inputs, are the subject of local processing which leads to the incorporation and dissemination of the 'industrial outlook' into the local patrimony.

The following illustrate the magnitude of the process of change experienced by these economies as a result of the leading role played

by the impressive industrial growth which characterizes their experience.

In the case of Korea, the product of the industrial sector represented only 5% of the national product in 1954 (see table 1). In 1978, however, 24 years later, the share of the industrial sector had risen to 32%, while that of the primary sector had gone from 50% to 19%.

In Taiwan, the industrial sector accounted for 10% of the product in 1952, whereas this proportion had risen by 1979 to the impressive level of 42%, while primary production went down from 37% to 11% over the same period (see table 2).

In the city-State of Singapore, which has practically no agriculture, the industrial sector represented 13% of the products in 1960 but 24% by 1979. This change was due partly to a relative decrease in the role of the primary sector from 5% in 1960 to 2% in 1979, but to a larger extent it was due to the relative decrease in the role of the services sector, which was responsible for 79% of the product in 1960 but only 70% in 1979. The relative weight of the services sector reflects the special characteristics of this international trading and distribution centre, as in the case of Hong Kong, thus

¹OECD, *The Impact of Newly Industrialized Countries*, 1979.

²*Ibid.*

Table 1
SOUTH KOREA: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1954	1955	1960	1965	1970	1975	1979
Primary production	50.2	44.3	45.9	34.2	27.8	24.0	19.1
Manufacturing	5.3	8.4	9.7	15.0	20.9	28.2	31.6
Services	44.5	47.3	44.4	50.8	51.3	47.8	49.3

Source: Chong Hyun Nam, *Trade and Industrial Policies and the Structure of Protection in Korea*, Korea Development Institute, 1980, p. 6.

Table 2
TAIWAN: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1952	1955	1960	1965	1970	1975	1979
Primary production	37.13	33.72	33.87	28.30	19.81	15.76	10.56
Manufacturing	9.82	14.40	17.44	20.01	27.31	30.54	42.12
Social security	9.61	10.47	11.08	12.26	13.74	15.56	14.96
Services	42.83	42.86	39.39	40.15	42.03	40.66	34.58

Source: Kwo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and National Chengchi University of Taiwan, 1980, p. 40.

calling for a different form of analytical treatment from that applied to the rest of the developing countries (see table 3).

We can see, then, that the notable dynamism displayed by the economies of these countries in the period after the war cannot be separated from the explosive industrialization reflected in the foregoing figures, so that it is of particular importance to go more deeply into the special features of this industrialization process. A central feature of this is the concentration of these countries on the export of consumer goods with a high import content and the relatively intensive use of labour. In the case of Korea, where perhaps the most advanced stage of industrialization has been reached, it may be noted, when comparing exports and imports of industrial goods, that the consumer goods category generates a significant trade surplus (almost US\$ 6 billion in 1978), but this is not enough even to offset the imports of intermediate goods, including fuels, while a further deficit of US\$

2 400 million is generated in the capital goods sector (see table 4).

It is important to stress, however, that this export strategy involving a high import content, together with the growth of the domestic market and its consequent import requirements, explain why the trade balance of Korea shows a systematic deficit from 1960 to 1979. It is worth noting that between 1960 and 1973 the expansion of domestic demand accounted for 73% of the overall growth of the industrial sector.³ This structural deficit in the trade balance points to the importance of external financing, particularly in the 1960s: a subject which will be referred to later.

If we compare the relative size of the deficit with the volume of exports, we see that there has been a significant improvement, because

³Larry E. Westphal, "The Republic of Korea's Experience with Export-Led Industrial Development", *World Development*, Vol. 6, No. 3, 1978, table 12, p. 366.

Table 3
SINGAPORE: SECTORAL STRUCTURE OF PRODUCTION

Share in GDP (%)	1960	1973	1979
Agriculture, fishing and hunting	4.5	2.3	1.7
Manufacturing	13.2	22.6	23.6
Construction	3.7	5.8	4.8
Commerce	33.6	28.6	25.0
Others	45.0	40.7	44.9
<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Wong Kum-Poh, *The Financing of Trade and Development in the ADCs: The Experience of Singapore*, University of Singapore, 1980, p. 6.

Table 4
SOUTH KOREA: NET EXPORTS, BY CATEGORIES
(Thousands of dollars)

Category	1972	1973	1974	1975	1976	1977	1978
Capital goods	-545 610	-727 097	-1 152 465	-1 165 385	-701 690	-1 262 903	-2 412 348
Intermediate goods	-1 059 929	-1 651 585	-3 005 114	-3 425 210	-3 931 559	-4 491 754	-5 770 009
Consumer goods	699 342	1 339 795	1 761 930	2 376 891	3 506 336	4 657 036	5 691 961
<i>Total</i>	<i>-897 914</i>	<i>-1 015 252</i>	<i>-2 391 478</i>	<i>-2 193 418</i>	<i>1 058 523</i>	<i>-764 081</i>	<i>-2 249 814</i>

Source: Toshio Watanabe, *An Analysis of Structural Dependence Between the Republic of Korea and Japan: Toward a More Optimal Division of Labour*, University of Tsukuba, Japan, 1980, p. 11.

whereas in the 1960s the deficit was of a comparable order of magnitude to the exports of goods and services, from 1972 the proportion went down to 40%, and in the period 1976-1978 it amounted to only 6%.⁴

Concentration on the export of consumer goods and high import content are well-known features of this group of Asian countries, but something which is not so often mentioned is their particular kind of link with Japan, with which they have a relationship clearly different from that which they have established with the United States and Europe. Thus, concentrating once again on the case of Korea, we note that whereas these countries' exports penetrate successfully into markets of the United States and Europe and generate a trade surplus favourable

for the exporting countries, there is a significant (and in the case of Korea, growing) trade deficit with Japan. In 1970 Korea's deficit with Japan was US\$ 589 million, but in 1978 it amounted to US\$ 3 412 million, equivalent to practically twice Korea's total trade deficit in that year and equal to 6% of its gross national product.⁵

If we analyse the structure of the trade relations between the two countries in question, we see that Japan has a favourable trade balance in the categories of machinery (22), electrical and electronic equipment (23), transport equipment (24), basic metals (19) and chemical products (14), while the trade balance is favourable to Korea in the branches of texti-

⁴See Park Yung-Chul, *Export Growth and the Balance of Payments in Korea 1960-1978*, Korea University, 1980, p. 6.

⁵Toshio Watanabe, *An Analysis of Structural Dependence Between the Republic of Korea and Japan*, University of Tsukuba, Japan 1980. p. 7. Pacific Trade and Development Conference, 1-4 September 1980, Seoul, Korea.

les (9), foodstuffs (5) and yarns and threads (8). Textile products, together with yarns and threads, represent 57% of Korea's exports to Japan.

Clear specialization is to be observed even in the trade relations within this branch, since Korea mainly exports clothing, silk products and cotton yarns, while importing capital- and technology-intensive products such as synthetic fibres and garments made therefrom.⁶

The second most important branch of Korea's exports to Japan is that of electrical and electronic equipment, where a clear tendency to specialization connected with the 'technological density' of these products is likewise to be observed. This branch includes household appliances, electronic components and electrical machinery and equipment, Korea's speciality being the export of such household appliances and goods as radios, television sets, watches and pocket calculators—all labour-intensive items. In the other two groups, the advantage is on the side of Japan. Even within the branch of electronic components there is specialization, since Japan is a net importer of batteries and integrated circuits—for which the production technology is well known—while it exports semi-conductors.

In the case of this sector, the specialization reflects the fact that the Korean enterprises engaged in these lines were developed on the initiative of Japanese or United States enterprises seeking to take advantage of the lower cost of labour through subcontracting. This is reflected in the high coefficients of exports and imports characterizing this branch in Korea: the export coefficient rose from 50% to 63% between 1970 and 1977, while the import coefficient remained practically constant at around 61% over the same period.⁷ The magnitude of

the presence of foreign firms in this sector is not typical of the industrial structure of Korea, for whereas in manufacturing as a whole foreign enterprises are estimated to be responsible for 15% of the total exports, in the case of the electronic sector it is estimated that if subsidiaries, joint ventures and wholly foreign-owned subsidiaries are included these account for 54% of the production and 72% of the exports.⁸

There are indications that similar vertical links exist between Japan and the remaining Asian NICs, although in the case of these other countries the coefficients of horizontal specialization are estimated to be lower.⁹ This special linkage between the Asian NICs and Japan is of particular importance because it shows that, from Japan's point of view, the relative loss of markets in the United States and Europe caused by the new exports of labour-intensive products from these countries is offset by the indirect exports of capital goods and intermediate products of Japanese origin incorporated in those countries' exports. The multiplier effect of Korea's exports for the Japanese economy has been worked out in quantitative terms, and this has confirmed the view that the net result is highly favourable for Japan.¹⁰ This situation would tend to change, however, in so far as these countries manage to progress in their production structure towards the metal manufactures and machinery and chemical branches, where they have indeed made significant steps forward. In the present circumstances of the world economy and those foreseeable in the short and medium term, however, it would appear that at least the speed of this diversification is becoming less marked.

⁶*Ibid.*, pp. 4-8.

⁷*Ibid.*

⁸*The Republic of Korea's Experience...*, *op. cit.*, p. 362.

⁹*An Analysis of Structural Dependence...*, *op. cit.*

¹⁰*Ibid.*

IV

Selective import substitution policy

Contrary to what is suggested by the 'popular' versions, the trade policy followed by these countries has included a by no means insignificant import substitution component, and this, unlike what happened in Latin America, has had an extremely selective nature at the sectoral level which has been gradually changing with time and adapting itself to the modifications undergone by the sectoral priorities of industrial policy. This careful and selective protectionist policy used both tariff and non-tariff mechanisms, reinforcing both with measures regarding access to the foreign exchange market. The selectivity referred not only to the identification of sectors, but even to that of enterprises, the authorization of foreign exchange for imports being conditional upon the generation of exports incorporating those imports, and thus involving the existence of institutional mechanisms permitting permanent communication between the government authorities and the respective enterprises.

As we shall see later, this 'institutional' dimension, with differences of form and intensity, is present in all four national cases and makes it clear that they involve an 'interventionist' State in the most orthodox Japanese tradition.

In the case of the protectionist policy of Korea, the first element which must be borne in mind is the fact that the information provided by the level of tariff protection is extremely sketchy, since "quantitative restrictions on imports have been much more important than tariffs as ways of protecting import substitution in Korea".¹¹

In the course of the so-called 'import liberalization' which took place in 1967, a 'black list' was introduced, whose effect was that all types of imports not listed there were automatically authorized. The Government

announced the number of items corresponding to restricted imports, i.e., the black list, twice a year. The criteria for defining the items included in this black list were fundamentally the balance-of-payments situation and the requirements for protection of domestic industries. Quantitative restrictions were applied mainly to competitive and 'non-essential' or 'luxury' imports, while imports of non-competitive raw materials and intermediate goods were approved automatically.

When the system of the 'black list' was adopted in 1967, approximately 60% of the 1 312 basic import items (SITC four digits) were not included in the list and consequently received automatic approval; 118 items were totally prohibited, while 402 were subject to various types of restrictions such as quotas or requirements for recommendations from the Ministry of Industry and Trade or other ministries. Between 1967 and 1978, i.e., in the course of one decade, the items whose importation was prohibited were gradually transferred to the restricted import list, the proportion of the total number of items automatically authorized being maintained approximately constant. By 1977, the proportion of automatically authorized items amounted to 52.7%, compared with 50.4% in 1967, and subsequently, towards the end of 1978, the proportion of automatically approved items rose to 64.9% (see table 5). In general terms, this shows that—at least from the point of view of the number of items of free or restricted importation—there were no substantial changes in the decade following what was called 'import liberalization process'. Consequently, in order to make a stricter appraisal of the nature of the protection system, it would be necessary to have information not only on the levels of tariff protection but also on the various import controls, and comparison of prices between the domestic and external markets.

Table 6 shows the levels of effective protection for 1978 in comparison with those

¹¹*Trade and Industrial Policies and the Structure of Protection in Korea*, Chong Hyun Nam, Korea Development Institute, 1980, p. 16. Pacific Trade and Development Conference, Seoul, 1980.

Table 5
SOUTH KOREA: NON-TARIFF IMPORT RESTRICTIONS

	Prohibited	Restricted	Automatically approved (1)	Total ^a (2)	Degree of liberal- ization of imports (%) (3) = (1)/(2)
1967 II	118	402	792	1 312	60.4
1968 I	116	386	810	1 312	61.7
II	71	479	756	1 312	57.6
1969 I	71	508	728	1 312	55.5
II	75	514	723	1 312	55.1
1970 I	74	530	708	1 312	54.0
II	73	526	713	1 312	54.3
1971 I	73	524	715	1 312	54.5
II	73	518	721	1 312	55.0
1972 I	73	570	669	1 312	51.0
II	73	571	668	1 312	50.9
1973 I	73	569	670	1 312	51.1
II	73	556	683	1 312	52.1
1974 I	73	570	669	1 312	51.0
II	73	574	665	1 312	50.7
1975 I	71	592	649	1 312	49.5
II	66	602	644	1 312	49.1
1976 I	66	584	662	1 312	50.5
II	64	579	669	1 312	51.0
1977 I	63	580	669	1 312	51.0
II	61	560	691	1 312	52.7

Source: Chong Hyun Nam, *Trade and Industrial Policies and the Structure of Protection in Korea*, Korea Development Institute, 1980, p. 6.

^aThe classification of imports of goods was based on the SITC 4-digit codes up to 1970, but after that the BTN (CCCN) 4-digit codes were used.

estimated for 1968 (the estimates of effective protection were obtained by using the methods of Balassa and Corden). This table brings out various interesting features of the Korean scheme of protectionist policy: to begin with, the weighted average rate of nominal protection for industrial activity as a whole rose from 14% to 18% and the rate of effective protection from 11% to 31% according to Balassa's method and from 9% to 24% according to Corden's method during the period 1968-1978. At the same time, the weighted average tariff protection went down from 54% to 38% over the same period. This points to the minor significance which tariff protection seems to have had in the case of Korea.

Secondly, in the case of both nominal and effective protection, a larger inter-sectoral vari-

ation is observed in 1978 than in 1968, which suggests that the discriminatory nature of sectoral promotion policy has been heightened. Both nominal and effective protection tend to be smaller for intermediate goods and higher for capital goods and consumer durables.

Thirdly, it is interesting to note that in the case of Korea—unlike what happened in Latin America—protection has a marked bias in favour of the agricultural sector, which has been intensified in the last decade. In 1968, the level of nominal protection for the agricultural sector was 17%, while it was 12% for the manufacturing sector; in 1978, in contrast, it had risen to 55% for the agricultural sector while it was only 10% for the manufacturing sector. This reflects, as in the case of Japan, the prevalence of the criterion of food self-suffi-

Table 6
SOUTH KOREA: NOMINAL AND EFFECTIVE PROTECTION
(Percentages)

Industry group	Legal tariff		Nominal protection		Effective protection for domestic sales			
	1968	1978	1968	1978	Balassa		Corden	
					1968	1978	1968	1978
I. Agriculture, forestry and fishing	36.5	26.7	17.0	55.2	18.5	77.1	17.9	73.4
IV. Mining and energy	12.2	6.3	8.9	-19.8	4.0	-25.7	3.5	-23.8
Total primary production	35.1	24.2	16.5	45.8	17.8	61.9	17.1	58.7
II. Processed foodstuffs	61.5	41.1	2.9	39.8	-18.2	-29.4	-14.2	-16.0
III. Beverages and tobacco	140.7	133.2	2.2	20.2	-19.3	28.0	-15.5	22.8
V. Construction materials	32.2	29.5	3.9	-7.2	-11.5	-15.0	-8.8	-11.9
VI-A. Intermediate products I	36.6	23.2	2.8	-2.4	-25.5	-37.9	-18.8	-27.4
VI-B. Intermediate products II	58.7	34.7	21.0	1.3	26.1	7.9	17.4	5.3
VII. Non-durable consumer goods	92.3	49.3	11.7	14.9	-10.5	31.5	-8.0	21.9
VIII. Durable consumer goods	98.3	44.3	38.5	40.2	64.4	131.2	39.8	81.0
IX. Machinery	52.6	27.5	29.9	17.8	44.2	47.4	29.5	33.2
X. Transport equipment	62.4	57.0	54.9	30.9	163.5	135.4	83.2	73.8
Total manufacturing production	67.6	41.4	12.2	10.0	-1.4	5.3	-1.1	3.7
Industry in general	54.3	37.7	14.0	17.8	10.5	30.6	9.0	24.1
Primary production plus processed foodstuffs	40.7	28.5	13.6	44.2	13.8	55.5	13.0	50.0
Manufacturing, excluding beverages and tobacco	60.6	34.1	13.2	9.1	0.5	2.7	0.3	1.9
Manufacturing, excluding beverages, tobacco and processed foodstuffs	60.4	33.3	15.9	5.5	5.9	5.1	4.1	3.1
Industry in general, excluding beverages and tobacco	49.6	31.8	14.6	17.7	11.7	30.8	10.0	24.2

Source: Chong Hyun Nam, *Trade and industrial Policies and the Structure of protection in Korea*, Korea Development Institute, 1980, p. 6.

ciency in basic domestic consumer categories.¹²

To sum up, then, in the words of Chong Hyun Nam:

"In the period 1968-1978, import liberalization seems to have been slow. Although for industry as a whole the average legal tariff levels and the number of restricted import categories went down, the nominal level of protection rose slightly during this period".¹³

It is evident that this state of affairs is very far from the drastic and immediate liberalization schemes currently recommended

in Latin America and actually put into practice by some countries, while it is also very far from the 'popular' version disseminated in Latin America regarding the trade policy of Korea.

In the case of Taiwan the information available is less complete, but it is likewise clear that the process of liberalization of imports, although significantly more marked than in the case of Korea, is characterized by its gradual nature. Table 7 shows that between 1963 and 1970 the percentage of items whose importation was controlled remained practically constant: in 1953 over 36% of all items belonged to this category, while in 1976 this figure had risen to 41%. In other words, during the period in which the industrialization policy was being put into effect the ingredient of protection for local manufactures was clearly present:

¹²See Kiyoshi Kojima, *Japan and a New World Economic Order*, Croom Helm, London, 1977, pp. 136-140, and S. Okita, "Japan, China and the United States: Economic Relations and Prospects", *Foreign Affairs*, Vol. 57, No. 5, 1979.

¹³See *Trade and Industrial...*, op. cit., p. 35.

Table 7

**TAIWAN: CHANGES IN THE CLASSIFICATION OF VARIOUS
CATEGORIES OF IMPORTED MANUFACTURES, 1953-1978**

	Number of items									
	Permissible	%	Controlled	%	Prohibited	%	Others	%	Total	%
1953	280	55.23	185	36.49	28	5.52	14	2.76	507	100.0
1956	252	48.10	241	45.99	25	4.77	6	1.14	524	100.0
1960	506	53.72	381	40.45	33	3.50	22	2.33	942	100.0
1966	4.93	52.34	395	41.93	36	3.81	18	1.91	942	100.0
1968	5 541	57.92	3 770	40.05	191	2.03	—	—	9 412	100.0
1970	5 612	57.08	4 030	40.99	190	1.93	—	—	9 832	100.0
1972	10 860	82.09	2 365	17.87	5	0.04	—	—	13 230	100.0
1974	12 645	97.71	293	2.26	4	0.03	—	—	12 942	100.0
1975	12 688	97.52	318	2.24	4	0.03	—	—	13 010	100.0
1976	12 846	97.16	362	2.74	13	0.10	—	—	13 221	100.0
1978	15 773	97.57	375	2.32	17	0.11	—	—	16 165	100.0

Source: Kuo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and National Chengchi University of Taiwan, 1980, p. 40.

“The principle whereby the domestic availability of a product justifies control of imports of similar goods is an important part of the Taiwan protection system, as in many other developing countries.”¹⁴

The basic criterion used was that local manufactures who desired protection must show that the quantity and quality of their products were sufficient to satisfy domestic

demand and that the cost of the imported raw materials to manufacture such products locally did not exceed 70% of the total cost of production. The ex-works price of the products whose importation was restricted could not exceed the prices of competing imports by more than 25% in 1960. In 1964 this margin was reduced to 15%, in 1968 to 10%, and in 1973 to 5%.

V

The role of the state

State action is present in all four of the countries analysed, although with differences of intensity and involving different forms of intervention. Even in the city States of Singapore and Hong Kong, historically conditioned to play a role as centres of international trade distribution, there are clear indications that the postwar

industrialization strategy was the result not only of the action of the international market forces, but of the adoption of a strategic decision by articulated internal nuclei of the respective States:

“In Singapore, the Government plays a key role in economic development. It not only identifies the sectors which display problems, formulates suitable policies and grants the necessary investment incentives, but also plays a real part in a wide range of economic activities... The public sector makes a considerable

¹⁴ Kuo-Shu Liang and Ching-ing Hore Liang, *Trade Strategy and the Exchange Rate Policies of Taiwan*, National Taiwan University and, National Chengchi University, Taiwan, 1980, p. 14. Pacific Trade and Development Conference, Seoul, 1980.

contribution to capital formation. Of the total gross domestic capital formation it is responsible for between a quarter and a third."¹⁵

In Hong Kong the presence and action of the State reflect the existence of domestic entrepreneurial nuclei which have an historical component associated with the long period during which this city-State has played a significant role in international trade intermediation relations in Asia. This component, distilled over the space of more than a century, is accompanied by the contribution in terms of entrepreneurial capacity and skilled labour which Hong Kong receives as a consequence of the social transformations taking place in China. In the words of Tzong-Biau Lin and Yin-Ping Ho:

"The infrastructure is a legacy of history. Hong Kong's hundred years of port activity provided the city with an extensive physical and commercial infrastructure: harbour and warehousing installations, valuable trade links, and wide experience in trading. All this, together with its efficient banking, insurance and sea transport systems, have created an economic structure which is extremely suitable for the development of export trade in the light manufactures which are the fundamental element in its present growth. It is perfectly true to say that Hong Kong's export industry was stimulated in the first place by the great flow of labour, capital and entrepreneurs from China in the late 1940s and early 1950s. During this period, a group of industrialists arrived from Shanghai whose capital and entrepreneurial capacity immediately brought about an expansion of the textile industry, which spearheaded the first stage in the industrialization of Hong Kong after the war. Moreover, the big flow of immigrants from China—most of them young, industrious and skilled—provided a practically unlimited number of workers in relation to the level of economic activity then existing. Unlike most of the economies which have an excess of labour, Hong Kong has a labour force which

does not, as is usually the case, come from the agricultural sector, but from immigration."¹⁶

The foregoing indicates that the successful industrialization of these two city-States, Hong Kong and Singapore, goes far beyond any question of being a miraculous result of the application of *laissez-faire*, and confirms the idea that in order to understand these processes it is necessary to give due weight to the responsibility assumed in them by endogenous groups in a form of social organization generated in particular historical conditions, whose characteristics must not be overlooked.

The foregoing details regarding the evolution of protectionist policy in the case of Taiwan reflect in turn the existence of a protectionist policy and an industrial strategy well defined by the Government ambit, among the main results being the relative diversification observed in industrial production and exports in the course of the period, in which growing proportions of products of the chemical, iron and steel, and shipbuilding industries are to be observed. It would be difficult, if not impossible, to try to explain this diversification towards capital-intensive sectors (petrochemicals) and sectors making intensive use of skilled labour and technology (such as shipbuilding) as a mere automatic reflection of the system of static comparative advantages and pressures by the advanced countries, which in actual fact will themselves be affected by this industrial diversification of Taiwan. What it is wished to stress is that the industrial strategy of Taiwan, as in the other cases, is due to a significant extent to the political decision of domestic economic and social agents which came together in the definition of the strategy formulated by the State.

The case of Korea calls for special attention, since it is the case which has been held up perhaps most frequently in Latin America as an example of this new paradigm based on opening up to the international market and minimization of the role of the State.

In a previous paragraph it was made clear

¹⁵The *Financing of Trade and Development in the ADCs: The Experience of Singapore*. Wong Kum-Poh, University of Singapore, Singapore, 1980, p. 9. Pacific Trade and Development Conference, Seoul, 1980.

¹⁶Tzong-Biau Lin and Yin-Ping Ho, *Export Oriented Growth and Industrial Diversification in Hong Kong*, The Chinese University of Hong Kong, 1980, p. 11. Pacific Trade and Development Conference, Seoul, 1980.

how far the protectionist policy applied by Korea was from the image of it which has been projected recently in Latin America.

A first expression of the active participation of the public sector in the design of the industrial strategy is to be seen if we analyse the planning scheme put into practice in Korea in 1962. The first plan (1962-1966) had as its central objectives the promotion of the expansion of strategic industries, strengthening of the economic infrastructure of the country, and furthering in particular of the growth of productivity in the agricultural sector.

The second plan (1967-1971) concentrated on the promotion of the internal articulation of the industrial structure and the stimulation of industrial exports.

The third plan (1972-1976) had as its central objectives the development of the engineering industry and heavy industry, as well as improvement of the balance-of-payments position.¹⁷

In order to illustrate the eminently selective nature of the industrial strategy and the weight exerted by internal decisions in defining the role which external agents have played in the industrialization of Korea, it is worth examining the criteria applied in establishing rules on the presence of foreign investment. The sectoral definitions fixed by the Foreign Capital Inducement Act to regulate the presence of foreign investment are detailed below (see table 8).

Apart from its character of sectoral selectivity, direct investment has played quite a marginal role compared with external indebtedness, and within the latter long-term indebtedness has predominated, thus confirming the appraisal that this is a case of an industrial development strategy propelled by internal agents. Except in the two years 1972-1973, when direct investment represented 12.3% of total long-term credit, its share in the rest of the

period 1968-1978 was below 10%, and in 1976-1978 it went down to 3.3% (see table 9).

Although no systematic information is available on the relative weight of foreign enterprises in the industrial sector of these countries, the indications regarding their share in industrial exports suggest that, except in the case of Singapore, their relative presence is less marked than in Latin America. If we bear in mind the fact that in the South-East Asian countries there has been a definite and well-defined policy, as illustrated earlier in the case of Korea, of primarily taking advantage of the export potential of the foreign enterprises and to some extent keeping the domestic market for national groups, it may be concluded that the share of foreign enterprises in total industrial production will tend to be less than the share in exports. In Latin America, in contrast, the share of foreign enterprises in exports could be a suitable approximate measure of their weight in total industrial production.

Bearing in mind these considerations and the information given in table 10, it may be concluded that the relative importance of domestic enterprises in the industrial production of Korea, Taiwan and Hong Kong is very markedly greater than in the semi-industrialized countries of Latin America. This appraisal, which differs from the 'popular' image disseminated in Latin America, indicates perhaps one of the special features of the Asian model, which, moreover, reaffirm the 'Japanese' inspiration behind their industrial strategy: the dominant central influence and leadership of the national industrial sector and its duty and ability to define strategic options for penetrating international markets and thus creating, by domestic efforts, the 'comparative advantages' of the future. This would take us a very long way from the kind of model in which countries are converted into passive objects of the international market forces and renounce the internal creativity and potential for change provided by the industrial sector.

The best known expression of the public action of the Korean State is the vast and generous range of export incentives, especially including the following: (i) access to subsidized financing for inputs, fixed investment and export activities; (ii) exemption from indirect

¹⁷*The Republic of Korea's Experience...*, op. cit.; *Trade and Industrial Policies...*, op. cit.; Hoail Lee, *Industrial Redeployment in Korea*, September 1979; *Pattern of Growth and Changes in Industrial Structure of Korea, 1953-1973*, Hak Chung Choo, Working Paper 7506, Korea Development Institute, 1975.

Table 8

SOUTH KOREA: SECTORAL REGULATION OF FOREIGN PRESENCE

1. PERMITTED FIELDS

A. *Export industries*

Industries which are required to export their entire production, unless the Government permits the contrary:

- (a) Food processing (preparation and preservation of meat, etc.)
- (b) Printing and publishing
- (c) Mining and extraction (mills and associated industries)
- (d) Synthetic resins (plastic materials, plastic films, etc.)
- (e) Glass products (liquor bottles, imitation pearls, etc.)
- (f) Chemical products (colorants and intermediates, zinc oxide pigments, etc.)
- (g) Leather products
- (h) Rubber products (bicycle tyres, vee-belts, etc.)
- (i) Chemical fertilizers (urea, compound fertilizers)
- (j) Metal products (door locks, electroplating and gilding)
- (k) Machinery (heaters, bolts, rivets, etc.)
- (l) Photographic and optical articles (optical lenses, spectacles and binoculars)
- (m) Transport equipment (bicycle parts, axles and transmissions, etc.)
- (n) Electrical and electronic articles (radio, television, video, audio, etc.)
- (o) Furniture
- (p) Others (pianos, organs, etc.)
- (q) Tourism.

B. *Import substitution industries*

Industries aimed at replacing imports and, eventually, exporting:

- (a) Hand made fibres (viscose and rayon fibres)
- (b) Paper and paper products (chemical pulp)
- (c) Chemical products (ethylene glycol, paper for films and sensitive paper)
- (d) Basic metals (iron and steel castings, etc.)
- (e) Metal products (drums, special electroplating, etc.)
- (f) Machinery (water turbiness, gasoline motors, etc.)
- (g) Electricity and electronics (electric motors, generators, etc.)
- (h) Transport (marine engines, building of metal ships, etc.)

2. RESTRICTED FIELDS

A. *Prohibited by law in the public interest*

- (a) Cigars
- (b) Processing
- (c) Water supply

- (d) Companies established with the Japanese repatriation fund

Restricted by law

- (a) Mining
- (b) Aviation
- (c) Fishing and processing
- (d) Maritime transport

Prohibited under the industrial policy

- (a) Generating plants and distribution
- (b) Railways
- (c) Gas supply
- (d) Coastal fishing

Prohibited in order to protect domestic enterprises

- (a) Wigs and false eyelashes
- (b) Plywood

B. *Others*

Textiles

- (a) Silk fabrics and *tsumugi* finishes
- (b) Non-woven fabrics
- (c) Kimonos and finishes
- (d) Special fabrics and finishes
- (e) Colorants and finishes

Metal products

- (a) Farm implements

Iron and steel

- Primary iron and steel
- Chemicals
- Basic petrochemicals
- Refining
- Basic oil

- (a) Automobile motors
- (b) Motor parts
- (c) Brake system
- (d) Clutch system
- (e) Electrical articles

Transport and storage

Warehouses

Table 9
SOUTH KOREA: LONG-TERM FINANCIAL MOVEMENTS
(Millions of dollars)

	1960-1963				1972-1973				1974-1975				1976-1978			
	Credit	%	Debit	%	Credit	%	Debit	%	Credit	%	Debit	%	Credit	%	Debit	%
Net long-term capital	101.6		66.3		1171.4				2124.7				4853.3			
Public and commercial loans	68.6	64.8	2.7	62.8	1363.8	75.2	463.8	72.3	2234.6	70.6	622.5	59.9	6630.4	74.7	1935.8	48.0
Direct investments	5.4	5.1			221.1	12.3	10.9	1.7	185.7	5.9	28.1	2.7	290.4	3.3	82.5	2.0
Commercial credit	31.0	29.3	0.4	9.3	214.6	11.8	115.0	17.9	645.0	20.4	349.4	33.6	1541.7	17.4	1657.7	41.1
Portfolio investments									19.0	0.6			186.2	2.1		
Others ^a	0.9	0.8	1.2	27.9	12.1	0.7	51.5	8.0	80.0	2.5	39.6	3.8	230.8	2.6	353.2	8.8
Total	105.9	100.0	4.3	100.0	1812.6	100.0	641.2	100.0	3164.3	100.0	1039.6	100.0	8879.5	100.0	4029.2	100.0

Source: Park Yung-Chul, *Export Growth and the Balance of Payments in Korea, 1960-1978*, Korea University, 1980, p. 6.

^aIncludes frozen loans, commitments to international organizations, fund covering transactions between head offices and foreign branches, bank deposits, and advance payments for imports.

Table 10
SELECTED DEVELOPING COUNTRIES: SHARE OF TRANSNATIONAL
CORPORATIONS IN EXPORTS OF MANUFACTURES

Country	Approximate percentages	Year	Total exports of manufactures in 1972 (millions of dollars)
Hong Kong	10%	1972	2 635
Taiwan	At least 20%	1971	2 489
South Korea	At least 15%	1971	1 351
Singapore	Newly 70%	1970	893
Brazil	43%	1969	749
Mexico	25-30%	1970	647
Argentina	At least 30%	1969	394
Colombia	At least 30%	1970	172

Source: Deepak Nayyers, "Transnational Corporations and Manufactured Exports from Poor Countries", in *Economic Journal*, Vol. 88, March 1978, p. 62.

taxes for intermediate products and foreign sales; (iii) exemption from duties on direct, indirect and capital goods inputs intended for export activities; (iv) reduction of direct taxes on income generated by export activities in favour of a reserve created from taxable income for the development of external markets and for compensating export losses and accelerated depreciation schemes used in connexion with determined export activities; (v) authorization to import goods not normally permitted, in so far as these are connected with export activities; and (vi) preferential tariffs for energy and transport. Outstanding among this set of incentives are the financing at subsidized rates and the preferential tax system which are those of greatest significance in the growth of exports. These two instruments, apart from their importance for promoting exports, are a clear expression of the non-neutral character of the Korean State and its close articulation with the industrial entrepreneurial sectors.

The following estimates show the quantitative importance of this financial subsidy: the proportion of subsidies associated with internal and external credits for the manufacturing sector and the stock of fixed capital in the manufacturing sector was 4% in the period 1950-1961 and 6% between 1962 and 1966, but between 1967 and 1971 this proportion rose to

14%, and from 1972 onwards it attained the level of 25%.

If we examine the proportion between the subsidies and gross fixed capital formation, we note an increase of 40% between 1962 and 1966, 75% between 1967 and 1971, and over 100% after 1972.

At the same time, we observe that the real rate of return in the manufacturing sector, which was estimated at 9% in the period 1950-1961, rose to 17% between 1962 and 1966, 26% between 1967 and 1971 and around 27% between 1972 and 1976.¹⁸

The increase in the rate of return in the industrial sector, together with the rise in real wages at an annual rate of 8.7% between 1963 and 1971 and 11.1% between 1972 and 1978,¹⁹ was possible because of the rapid growth of productivity which accompanied this extraordinary rate of expansion 'spearheaded' by the industrial sector.

In spite of this significant increase in real wages, the share of labour income, including income of small enterprises, in the gross nation-

¹⁸Wontack Hong, *Trade, Industrial Growth and Income Distribution in Korea*, Seoul University, 1980, pp. 25-26. Pacific Trade and Development Conference, Seoul, 1980.

¹⁹*Ibid.*, p. 41.

nal product shows a decline from 85% in 1963 to 78% in 1975. At the same time, the share of entrepreneurial income in the product rose from 6.4% in 1963 to 10.9% in 1975.²⁰ With regard to the connexion between the export policy and this regressive distribution of income, Wontack Hong concludes that the main explanations are as follows:

"Firstly, the fact that export activities enjoyed big subsidies means that a considerable rent must have been created for those persons with special entrepreneurial talent and capacity for expanding exports. Secondly, the fact that the Government restricted the assignment of subsidies to a limited number of entrepreneurs in order to take advantage of economies of scale also means concentration of wealth, while the preferential tax system aimed at giving incentives to entrepreneurs to retain and reinvest profits, together with the insignificant level of the inheritance taxes levied, means the perpetuation of this concentration of wealth. Since in the 1970s approximately 25% of total government expenditure was devoted to general administration, 30% to defence, 25% to investment activities aimed at economic growth, and the rest to social development expenses (principally primary education), it may be said it has never been the Korean Government's aim to improve income distribution or increase public welfare activities on the basis of a system of taxes and fiscal expenditures. In other words, if economic factors such as the growing proportion of income in respect of profits have accentuated the deterioration of income distribution in the 1970s, the system of taxes and government spending has never embarked on any new efforts to reverse this trend."²¹

In the cases of Taiwan and Hong Kong too, for which information is available, we note an increase in real wages in spite of the weak trade union activity. In the case of Hong Kong, the Government does not apply any regulations re-

garding minimum wages, and trade union activity appears to be extremely sketchy.²²

With regard to Korea, the well-known study by Westphal notes:

"Where the government has intervened in labour markets it has generally been to counter organized labour force which as a result is not a powerful interest group."²³

In Taiwan the unit cost of labour appears to have remained constant or even gone down in the 1960s, beginning to grow in the following decade.²⁴

Although no precise information is available, it may be assumed that in view of the indexes of growth of productivity in Taiwan a similar phenomenon took place there to that observed in Korea, where the growth of real wages and regressive income distribution took place side by side. From the point of view of social tensions, even leaving aside the question of the machinery of repression, concentration of income parallel with growth of real wages against a background of generalized expectations of economic growth is absorbed relatively easily. The situation changes, however, when (as appears to have taken place in Korea in the second half of the 1960s) a situation of full employment is reached while at the same time the prospects for growth deteriorate. The simultaneous existence of a slowly growing external market, pressures due to growing trade union activity and the coming to the surface of the social problems accumulated and kept covered up during the period of growth probably go a long way towards explaining the political conflicts observed in Korea in recent years. The topic of the effects caused by the entry of this long cycle of expansion into the recessive phase will be resumed when we analyse the international context in which the industrializing entrepreneurial action of the State took place in these countries.

²²Export Oriented growth, *op. cit.*, p. 9.

²³The Republic of Korea's Experience, *op. cit.*, p. 375.

²⁴Trade Strategy and the Exchange Rate..., *op. cit.*, p. 41.

²⁰Table 10.

²¹Trade, Industrial Growth..., *op. cit.*, p. 3.

VI

The international context

In previous paragraphs stress has been laid on a set of internal factors which appear to have played a determining role in the rapid economic growth experienced by these countries after the war: the industrialization effort of the State, expressed through the subordination of the financial sphere to the objective of industrial growth; the definition of sectoral priorities and integral economic policies in support of the selected branches; the clear articulation with an entrepreneurial sector having the will and desire to secure industrialization; the passive attitude of the labour force and the fragility of trade union organizations, which is explained both by political and repressive factors and by the high density of population with low productivity in the initial stages; and the design and clear utilization of a massive policy of training labour. In the cases of the city-States of Hong Kong and Singapore, this industrialization was complemented with the traditional entrepreneurial competence and experience in the fields of trade and finance.

These internal factors were strengthened and stimulated by a certain international context, while both economic and geopolitical considerations acted in the direction of decidedly strengthening industrial growth oriented towards international markets.

In the economic field, we have seen in a study²⁵ referred to earlier how the rapid growth which was a feature of the period after the war favoured the accelerated growth of productivity, intensification of international trade, and consequently also of competition between the developed countries, which in its turn had projections on the internationalization of industrial production, with a progressive increase in the relative expensiveness of labour which stimulated the search for elements to neutralize that tendency, among them the construction of export platforms in countries with cheap and

'disciplined' labour. This factor of "demand" then encountered a functional response in the internal factors of the Asian NICs, whose endogenous dynamism found a propitious field in the markets of the developed countries and especially the United States and Europe. This was a period during which trade was liberalized, principally in the tariff field, and where GATT did not really worry too much about the export subsidy policies applied in the developing countries, or the measures of protection in specific sectors. The intensification of competition between developed countries, the increase in the cost of labour in those countries, and the generation of forms of marketing through big chains of supermarkets found a strictly functional response in the efforts of the Asian countries to industrialize and export, and their concentration on consumer goods. At the same time, the profound industrial changes going on in Japan, which permitted it to bring about drastic changes in its industrial and export structure, moving from labour-intensive products to products making intensive use of technology and capital, found in the expansion of the Asian countries an expedient to permit it to offset its loss of competitiveness in labour-intensive products, by channelling to those countries the capital goods required for their domestic and export-oriented industrial growth.

The considerations of an economic nature which apply to the developing countries in general were accompanied, in the case of the Asian countries, by considerations of a geopolitical nature. Thus, for well-known geographical and historical reasons this group of countries played an important role in the ideological and military confrontation between East and West in the period following the war. In addition to the strictly logistic aspects connected with the existence of military bases, the economic and military strengthening of these countries also became an essential objective. In the confrontation with China, a decisive role was played by Taiwan and Hong Kong, and to a

²⁵Fajnzylber, *The Industrial Dynamic...*, *op. cit.*

less extent Singapore, while in the case of the confrontation with North Korea and the Vietnam conflict an important role was played by South Korea.

In the cases of both Taiwan and Korea the economic aid provided during the 1960s played an important function in that it provided a sound basis in the critical phase of the gestation of these industrialization models. As already noted, the trade deficit in the 1950s and the early 1960s reached a considerable level, and it was precisely at this time that United States aid carried out a decisive function:

"Taiwan was the beneficiary of a strong aid programme. It was assigned a total of US\$ 1 444 million in the period between 1951 and 1965, which is equivalent to ten dollars per inhabitant per year. This assistance played an important role in the task of controlling inflation at the beginning of the 1950s. Moreover, if it had not been for United States aid, the trade deficit of Taiwan would have been a factor capable of seriously limiting the country's economic development up to the early 1960s. United States aid overcame this bottleneck by increasing the foreign exchange resources and providing support for the importation of indispensable inputs which served as a complement to the domestic labour force and other components of investment. Up to 1951, the share of United States aid imports in total imports remained over 30%, although subsequently it went down rapidly."²⁶

With regard to Korea, a similar situation was observed:

"Korea's relationship with the United States obviously increased its foreign exchange earnings through expenditures stemming from the stationing of UN forces in Korea and, during the war in Vietnam, from offshore procurement by the United States. As indicated in table 6 under 'receipts from government transactions', militarily related expenditures (the sum of the two components shown) in the past accounted for a sizable fraction of Korea's foreign exchange earnings."²⁷

The same author, in setting out the conclusions of his well-known study, highlights

the endogenous elements among the complementary factors:

"The most obvious element was the level of foreign assistance during the 1950s and early 1960s, which contributed to building the infrastructure for subsequent growth."²⁸

Another analysis of the balance-of-payments situation of Korea states:

"From the early 1950s, after the Korean War, until the mid-1960s, the trade deficit, including invisible items, was generally covered through foreign aid and donations. In this period the inflow of capital, whether short or long term, was very slight."²⁹

As regards the geopolitical importance of these countries and its connexion with the field of trade, it may be of interest to quote a statement regarding Hong Kong which says:

"One of the reasons why the United States did not try to apply more pressure to Hong Kong during the 1960s with regard to limitations in the question of textiles was that the United States needed the intelligence station which was used to keep the People's Republic of China under surveillance."³⁰

The economic and geopolitical considerations which tended to favour the policy of export industrialization of these countries are illustrated by the many cases of leniency with which the United States applied trade regulations to these countries. Thus, in the specific field of the application of customs classifications, the most noteworthy example are those connected with cases of classification of shoes as rubber shoes or non-rubber shoes, yarn as cotton yarn or synthetic yarn, and television sets as assembled or semi-assembled: all options with decisive tariff implications.

By way of illustration, let us take the case of footwear:

²⁸*Ibid.*, p. 375.

²⁹Park Yung-Chul, *Export Growth and the Balance of Payments in Korea, 1960-1978*, Korea University, 1980, p. 3. Pacific Trade and Development Conference, Seoul, 1980.

³⁰D. Yoffie and R. Keohane, *Responding to the 'New Protectionism': Strategies for the Advanced Developing Countries of the Pacific Basin*, Stanford University, United States, 1980, p. 12. Pacific Trade and Development Conference, Seoul, 1980.

²⁶*Ibid.*, p. 3.

²⁷*The Republic of Korea's Experience*, *op. cit.*, p. 361.

"In 1976 the Koreans exported to the United States 44 million pairs of non-rubber shoes and stated in January 1977 that their total export capacity for the year was 60 million pairs. The United States tried to lower the total achieved by Korea in 1976 and in fact reduced the level of the Korean quota to 33 million pairs for the year ending in June 1978. Using the various clauses that permitted greater flexibility, however, the Koreans actually managed to export 58 million pairs of shoes in 1977."³¹

There are also many examples of leniency on the part of the United States towards the Asian countries with regard to the evasion of valid regulations. An important case is that of transshipment, which seems to be particularly significant in the textile and footwear sectors:

"With regard to textiles, clothing and footwear, the classic way of getting round the quota has been transshipment. Buying false documents in Hong Kong, for example, costs only one-third of the amount that it would cost to acquire legitimate quotas. The goods can then be transported in bulk to Indonesia or Sri Lanka, which have no quotas, and can be newly labelled before being sent on to the United States. Transshipment immediately became much in evidence after the application of the measures regarding footwear. Taiwan companies sent footwear components to Hong Kong to be assembled there, with the result that Hong Kong's exports of footwear increased by 22.5% in 1978."³²

Another way of evading established trade regulations is the use of third countries to neutralize the restrictions specifically placed on certain suppliers:

"As they no longer have the opportunity to export synthetic textiles instead of cotton because of the negotiation of the multifibres agreements, Taiwan, Korea and Hong Kong habitually export batches of such textile to countries like the Philippines or even Japan, where the work of manufacture is completed and the products are then sent to the United States."³³

The considerations of an economic and geopolitical nature already mentioned appear

to have played a significant role in the relative indifference shown by the United States in accepting these situations:

"In many cases, the evasion of customs regulations was encouraged or tacitly approved by the United States. At one stage of the Vietnam war, larger shipments than those permitted were easily accepted, because domestic production was less than demand. The fact of allowing certain provisions to be evaded may have satisfied some of the legitimate complaints of countries subject to restrictions, while at the same time maintaining the integrity of the protectionist régime. Moreover, the United States has never put into practice an effective system of sanctions. The highest amount paid by an importer for illegally infringing a quota is US\$ 10 000, which is not a very important sum compared with the potential profits."³⁴

The importance of this international context in explaining the 'Asian miracle' became evident precisely when, in the 1970s, this international context underwent changes. The recession in the developed world was projected directly into the sphere of international trade, not only through the emergence of protectionist tendencies in certain countries, but also through the content of the international trade negotiations in GATT. From the early 1970s onwards, there began to be concern over export subsidies, protection policies, 'public sector purchasing mechanisms' as an element of domestic protection, and in more general terms, the need for the NICs —among whom the leading role was played by the Asian countries— to grant reciprocity to the developed countries in trade relations, which mainly affected export subsidies and protection of the domestic market. During these years, the main instruments of this 'protectionism' formulated by the developed countries were the 'voluntary export restraints' (VER) and the 'orderly marketing agreements' (OMA), intended mainly to get round the most-favoured-nation clause. The VER became so widespread that they now have an importance comparable with that of tariffs and quantitative restrictions.³⁵

³¹*Ibid.*, p. 15.

³²*Ibid.*, p. 17.

³³*Ibid.*, p. 18.

³⁴*Ibid.*, p. 19.

³⁵*Ibid.*, p. 2.

According to the International Monetary Fund, the developed countries have established more than 30 restrictive measures against Taiwan since 1976, while Korea has been affected by over 70 such actions since the beginning of the 1970s.³⁶ This new external picture could hardly fail to have serious effects on the economic situation in countries where exports represented a high proportion of their activities. This external factor was strengthened by the increase in power of the trade unions and their corresponding political expressions within the Asian countries, where, precisely because of the rapid growth of industry and the increase in the level of skill of the labour force and the relative scarcity of the latter, social changes were taking place which modified one of the main internal elements explaining the previous model.

In the field of geopolitical relations, the United States' new relationship with China also significantly modified the importance of Taiwan, Hong Kong and Singapore. The new international position of China probably also had some influence on the policy of North Korea towards South Korea, and perhaps the references to unification are not totally unconnected with the new framework of relations between the United States and China and Japan and China.

Consequently, the convergence of the changes taking place in the international economic and political framework and the internal social changes brought about precisely by prior economic growth explain the political and economic difficulties facing these countries, particularly Korea, which is the country which had progressed furthest in the diversification of its industrial structure. The present government has undertaken, precisely in the metal manufactures and machinery sector, a process of industrial restructuring designed to promote mergers of firms and avoid over-investment in the sector. The four enterprises which operated in the heavy electrical equipment sector are being regrouped under only one of them, while another of the leading groups has been forced

to choose between the capital goods and the automobile sector and has finally decided on the latter. The drop in domestic demand has also had very severe repercussions on the automobile sector, and it is estimated that exports of vehicles fell by 70% in 1980.

The same situation is to be observed in the electronic products sector, where the four biggest enterprises all declared losses in the first half of 1980. In this sector, whose main exports are black and white television sets, semiconductors and telephone exchanges, and more recently colour television sets, the restrictions on international markets have coincided with a drop in the domestic market. It is interesting to note that for reasons connected with the stimulation of domestic savings, up to this year the Korean Government had prohibited the sale of colour television sets on the domestic market, but because of the restrictions on the international market it has now thrown open the domestic market to local manufacturers.³⁷

This restriction on the domestic consumption of colour television sets produced by domestic firms, together with the considerations which inspired it, confirms the industrializing propensity of the State and provides an interesting contrast with those countries of Latin America where, because of the predominance of a mercantile and financial intermediation mentality, domestic production has been replaced by imports coming partly from South-East Asia. As this is a sector which, like that of electronics, constitutes one of the decisive factors in the creation of the 'future comparative advantages', it may be foreseen that this 'modernization by imports' could have by no means insignificant consequences for the place of these countries in the international market in the next decade.

Concern over the economic situation of Korea—a country whose creditworthiness in the international financial system was previously unsurpassed—has even reached the spheres of the World Bank, a body whose reports up to now had helped to convert the Korean model into a veritable paradigm and

³⁶B. Nowzod, *The Rise of Protectionism*, IMF, 1978, p. 108. Cited in *Ibid.*, p. 24.

³⁷E. Lochica and J. Landauer, "South Korea has serious economic ills, confidential study for World Bank says", in *The Wall Street Journal*, 23 December 1980.

whose financial contribution to Korea, although not of large size, was important for its catalytic function with respect to the private banks, as also happened in the case of the other developing countries:

"South Korea is in serious economic difficulties: the rate of exports achieved in previous years has gone down, and no solution has yet been found for inflation and unemployment, according to confidential World Bank documents. These studies, prepared by loan officials of the Bank, draw a picture of this previously so vigorous Asian country which is more sombre than those accepted up to now by its officials and United States banks. The United States has vital interests in South Korea not only because of its strategic location in North-East Asia, but also because it occupies

twelfth place among the countries with the highest trade links with the United States... The harsh and arbitrary policies of the government, combined with the contained resentment of the lower sectors, do not seem specially favourable to economic growth, but there is a small possibility that a broad and ambitious policy of industrial restructuring combined with an improvement in international trade, would make it possible for Korea to get over its economic difficulties and thus avoid the danger of a political crisis..."³⁸

The subsequent evolution of the Korean model will be largely linked to the evolution of the world economy and the political capacity of the régime to absorb the social tensions which had been neutralized and postponed by what seemed to be unlimited growth.

VII

Final reflections

The foregoing considerations show how precarious 'paradigms' can be which are based fundamentally on economic indicators and do not take into account cultural, institutional and social factors or the link between endogenous factors and the international context. This in no way rules out or minimizes the importance of the lessons that can be learned in the specific field of economic policy and industrial strategy from the cases considered, but it does emphasize the 'scientific' fragility of recommendations which advocate the mechanical transfer between countries of experiences which have not even been carefully interpreted. Even more serious is the case of those recommendations which, apart from failing to take account of the economic and social conditions of the recipient country of the experience, distort the lessons that can be drawn from the experiences on which they are based. In the case of the countries of South-East Asia, it is a serious omission not to give sufficient emphasis to the following:

(i) The existence of a set of endogenous factors which help to explain the specific fea-

tures of this industrialization which took place at an even later date than that observed in Latin America.

(ii) The existence of a national entrepreneurial nucleus endowed with a marked industrialization mission.

(iii) The traditional competence of national groups in the fields of international trade and finance, particularly in Hong Kong and Singapore.

(iv) The presence of a public sector capable of conceiving and implementing a long-term industrialization strategy.

(v) The careful, selective and lucid policy of protecting the formative period of national industry.

(vi) The subordination of the financial dimension to the strategic objective of industrialization.

(vii) The special attention and protection given to the agricultural sector.

(viii) The moderate presence, smaller than

³⁸*Ibid.*

that observed in Latin America, of foreign enterprises (except in Singapore) and, what is perhaps more important, the subordination of their behaviour to domestically defined strategic industrial objectives.

(ix) The politically authoritarian nature of their régimes, particularly in Korea and Taiwan.

(x) The special nature of the international context in which these experiences took place.

The development strategy and employment in the 1980s

*Víctor E. Tokman**

The productive absorption of the labour force has always been one of CEPAL's top priorities, not only because it indicates a rise in the level of productivity but also because it serves as a basis for a more equitable distribution of the benefits of development.

The author analyses this subject in depth, stressing the persistence of a high level of underutilization of the labour force in the region as a whole—as expressed in high unemployment and underemployment indexes—despite the considerable absorption capacity shown by high-productivity urban activities. If the region wants to reach a level of utilization equal to that of the industrialized economies within the next twenty years, the growth rate will have to be 8.3% annually and will also have to be supported by public policies directed towards productive absorption.

Given these requirements, the article emphasizes the need to carry out action directly oriented towards achieving an increase in the productive absorption of the labour force, as historical experience shows that this problem will not be solved spontaneously, nor is such absorption merely a subproduct of economic growth.

In the final part, the author examines some of the repercussions which the new strategies applied in the region—oriented towards greater external openness—have had on employment, especially in industry. He admits that this sector of production must increase its efficiency and competitiveness, but he also stresses the important role it has played in the absorption of the labour force and consequently in the latter's living conditions. New strategies should always take into account their consequences for employment and the standard of living of the population.

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The objective of this study* is to make some comments on the employment aspects that should be considered in the economic and social development strategy of the region in the 1980s. In this regard, we believe it is first necessary to make a very brief reference to what has occurred in Latin America in the field of employment in past decades.

I

Evolution of employment and wages

The main conclusion to be drawn from an analysis of the historical evolution of the employment problem is that, although significant progress has been made in many countries during the past three decades, there are still high levels of underutilization of the labour force. Thus, towards 1950 one out of every four Latin American workers was totally underutilized, but in 1980 the proportion was still one out of every five workers. This means that of a labour force of 113 million Latin American workers in 1980, the equivalent of 23 million were totally underutilized (see table 1). This has obvious social implications and means a sacrifice in well-being for the affected families; but it also means a waste of the productive potential of the region which, if it were fully utilized, could help to generate the goods and services required by the population.

It should be noted from the beginning—and we will return to this point later on—that the averages for the region do not represent the situation in each one of the countries. On the contrary, groups of countries may be identified which display wide disparities in levels and trends of underutilization (see table 2). This means that some countries (unfortunately the smallest group) now show levels of underutilization similar to those found in the countries of

*This work is based on the statement delivered by the author at the nineteenth session of CEPAL, held in Montevideo in May 1981, and on the paper submitted by PREALC at the same meeting, *El subempleo en América Latina: Evolución histórica y requerimientos futuros*, Documentos de Trabajo series, No. 198, Santiago, PREALC, 1981. The author wishes to acknowledge the participation of Norberto García in the preparation of the statement and the PREALC papers.

the centre (group C); a large group of countries, where more than 70% of the Latin American population is concentrated, show similar tendencies to the average (group A), and a group of four countries show higher levels of underutilization, with no tendency to improve (group B).

Table 1

LATIN AMERICA^a: UNDERUTILIZATION
OF LABOUR, 1950-1980
(Percentages)

	1950	1970	1980
<i>Labour force</i>	100.0	100.0	100.0
Agricultural	54.7	42.0	34.9
Non-agricultural	45.3	58.0	65.1
<i>Total underutilization^b</i>	22.9	22.3	19.9
Open unemployment (national) ^b	3.4	3.8	3.9
Urban underemployment ^c	13.6	16.9	19.5
Agricultural underemployment ^c	32.6	26.9	22.6

Source: PREALC, *El subempleo en América Latina...*, op. cit.

^aComprises 14 countries: Argentina, Brazil, Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru, Uruguay and Venezuela.

^bPercentage of total economically active population. Total underutilization includes open and equivalent unemployment.

^cPercentage of members of the labour force affected.

Table 2

LATIN AMERICA: EVOLUTION OF TOTAL^a
UNDERUTILIZATION OF LABOUR, 1950-1980
(Percentages of EAP)

	1950	1970	1980
Group A ^b	24.7	23.0	19.7
Group B ^c	35.9	37.7	36.3
Group C ^d	8.5	7.7	8.2
<i>Latin America (14 countries)</i>	22.9	22.3	19.9

Source: PREALC, *El subempleo en América Latina...*, op. cit.

^aIncluding open and equivalent unemployment.

^bComprises the following countries: Mexico, Panama, Costa Rica, Venezuela, Brazil, Colombia and Guatemala.

^cComprises the following countries: Peru, Ecuador, Bolivia and El Salvador.

^dComprises the following countries: Argentina, Chile and Uruguay.

There are two main phenomena defining underutilization of the labour force in Latin America. The first is urban open unemployment, and the second is underemployment of the labour force in both rural and urban activities of very low productivity.

1. Urban open unemployment

Available estimates on the size and trends of the urban open unemployment rate from 1950 to 1980 show that the region as a whole recorded relatively low and stable levels fluctuating between 5 and 6%. Although significant differences exist between countries, the upper limits remained relatively low, with open unemployment rates fluctuating between 5 and 11%, except for conjunctural situations or severe adjustment processes when this rate tended to rise significantly.

In the light of the historical record, at least three comments may be made. Firstly, there is no evidence in Latin America of a tendency towards a systematic increase in open unemployment, thus disproving the catastrophic forecasts of explosive situations in this respect. Secondly, although open unemployment is the most visible expression of the employment problem, it only accounts for around 20% of the problem of the total underutilization of the labour force, the greater part being concentrated in less visible underemployment situations. The third comment, although it lacks validity, consists of a comparison between these rates and those prevailing today in the central countries, which is sometimes made with a view to minimizing the size of the problem to be faced.¹

Basically, these situations are not comparable, however, because they involve very different labour markets. As pointed out earlier, open unemployment is not an adequate indicator of the employment situation in developing countries, as the fact of appearing employed in the statistical records does not imply

¹This comparison is being made more and more frequently in view of the increase in open unemployment rates in the central countries. Thus, in December 1980 the United States recorded a rate of 7.6%, Great Britain 8.8%, France 7.0% and the Federal Republic of Germany 4.6%.

that one is fully employed; in contrast, the open unemployment rate is a good indicator of the predominant situation in developed countries.

2. Underemployment of the labour force

The second factor in underutilization of the labour force is underemployment, which now accounts for four-fifths of the total underutilization in the region. This is the joint result of the relative inability of the system to provide enough jobs for the entire population and the need for families to obtain the income required to survive. Thus, heads of households who provide the major part of the income to sustain the family cannot afford the luxury of taking much time off to search actively for new jobs,² and thus have to be satisfied with the jobs offered them by the market, whatever their level of productivity and remuneration. As a result, in most countries of the region a very high percentage of the employed labour force may be found at extremely low levels of productivity. These jobs are concentrated in both rural and urban activities, and are characterized by their low degree of organization, little or no capacity for accumulation and technological innovation and precarious insertion in the modern productive apparatus.

The underemployment situation has not remained static either. On the one hand a downward trend may be observed, although very slight, but on the other hand there is a clearly growing transfer of rural underemployment to urban areas (see table 1). This means that today the phenomenon is much more visible than 30 years ago, since the daily reality facing the ordinary citizen of the large urban centres of the region can no longer be ignored. The effects on the supply of basic urban services are also quite clear.

It is worth pausing at this point to emphasize an aspect which arises from the evidence analysed and which has been a cause of erroneous interpretations in the diagnosis of the employment problem. Although the trend

²The open unemployment rates of heads of households are generally between one-third and one-half of the rates shown by the secondary labour force (young people, the elderly, and women who are not heads of households).

towards a decrease in the underemployment problem in the region has been slow, this is not the result of low rates of absorption of the labour force in intermediate and high productivity sectors; on the contrary, the available evidence suggests that during the period 1950-1980 the employment growth rate in those urban activities denominated 'formal' because of their degree of modernization reached 3.8% annually for the region as a whole, without counting the role of these activities in the indirect generation of jobs, mainly in the service sectors. This rate is undoubtedly high when compared with the historical records of the currently developed economies.³

How can this apparent paradox of slow absorption of underemployment along with a high rate of job creation in modern activities be explained? At least two factors must be taken into account. Firstly, 30 years ago modern urban employment was a small fraction of total employment. For Latin America as a whole, it represented only 30% of the total labour force in 1950, and in view of the low original share, even relatively high growth rates in formal employment entail only small fractions of the total of new jobs created annually. Secondly, during the period analysed, most of the countries simultaneously recorded high population growth, increases in rates of participation, and heavy rural-urban migrations. Towards 1950 about 55% of the total labour force in Latin America was engaged in agricultural activities, while by 1980 this proportion had dropped to 35%. These two factors help to explain to a large extent the relatively insufficient expansion of productive jobs, since although the proportion of the urban labour force in less productive informal activities remained constant, its importance grew from 14 to 20% of the total labour force in Latin America between 1950 and 1980 (see table 3).

3. Labour markets: operation and trends

Finally, to complete this brief analysis of the evolution of the employment problem, we should mention the trends observed in wages.

³Only the United States in the first half of the nineteenth century reached similar rates.

The available information for Latin America during the period 1960-1980 leads to two main conclusions. One is that there has been a tendency towards homogenization in the wage base, and the other, that this homogenization is in contrast to a growing dispersion within the modern sectors.

Table 3

LATIN AMERICA: STRUCTURE OF THE
LABOUR MARKET, 1950-1980
(Percentages)

	1950	1970	1980
<i>Non-agricultural</i>	44.1	57.1	64.3
Formal	30.5	40.2	44.9
Informal ^a	13.6	16.9	19.4
<i>Agricultural</i>	54.7	42.0	34.9
Modern	22.2	15.1	12.3
Traditional ^a	32.5	26.9	22.6
<i>Mining</i>	1.2	0.9	0.8
<i>Total</i>	100.0	100.0	100.0

Source: PREALC, *El subempleo en América Latina...*, op. cit.

^aIncluding own-account workers and those engaged in non-remunerated family activities, and excluding professionals in both categories and domestic servants.

The tendency towards homogenization of basic wages may be observed in the reduction of the gap between agricultural wages and those prevailing in urban areas. Thus, in 9 of the 12 countries for which data are available, the difference between the agricultural wage and the wages of some of the less skilled urban activities into which migrants are usually incorporated, such as construction, has tended to decrease, falling from around 50% in the late 1960s to 40% by the end of the 1970s. This narrowing of the range of basic wages is undoubtedly associated with the large migratory movement referred to earlier, which is perhaps the most notable feature of past decades. Obviously, population movements of the size recorded in the region have implications in the direction of an increase in incomes in the region from which they come, while they also help to reduce any increases which might be

recorded in the regions to which they migrate (see table 4).

The tendency for basic wages to become more homogeneous is combined with an increase in wage heterogeneity in the urban markets. Thus, in 9 of the 16 countries for which information is available, the difference between the two incomes has risen over the decade. The differential rate of expansion of the average wage predominating in the manufacturing industry tends to suggest that the better-organized wage earners, who are working in larger and more productive companies, have been more successful in defending their incomes than those holding jobs at the base levels of the labour market (see table 4).

The greater spread of wages is corroborated by comparative studies on wage trends for different levels of occupation and skill, and occupations with different productivity, which show that within the modern sectors differences tend to increase between incomes received by those who perform jobs with hierarchical responsibility, such as managers, accountants and others, compared with those received by unskilled workers, such as labourers, messengers, etc.

These two trends suggest that while minimum wage policy and the existence of a surplus labour force tend to equalize basic wages in the less organized companies, even in the modern sector, the combination of the form of organization of production in the more productive companies with the greater organizational capacity of the labour force in these companies influences wages, causing not only a greater dispersion but also the maintenance of significant differences in basic wages compared with minimum wages. Although this behaviour challenges the reasoning implicit in more conventional economic analyses, it also reflects a reality which obeys the operational norms of modern firms.

In short, the historical evolution does not offer any definite lessons. The trends are neither catastrophic nor extremely bright in outlook; progress is being made, but only at a slow rate in the context of a labour market which, while generally balanced, is at a low level of productivity and income.

Table 4
LATIN AMERICA: EVOLUTION OF REAL WAGES,
1966-1979

Country	Average real wages 1978-1979 (Base indexes <i>circa</i> 1966-1967 = 100)			Ratios			
	Indus- trial	Urban minimum	Agricul- ture	Industrial/urban minimum		Agricultural/ construction	
				1966- 1967	1978- 1979	1966- 1967	1978- 1979
Argentina	84.5	43.7	62.6 ^a	1.74 ^b	2.92	0.59	0.56 ^a
Bolivia	114.4 ^a	170.2	...	3.72 ^b	2.11	...	...
Brazil	155.7	92.6	135.1 ^a	2.79 ^c	4.45	0.61 ^c	0.86
Colombia	111.7	113.2	152.8	2.49	2.46	1.00	1.51
Costa Rica	151.6	112.2	137.6 ^d	1.46	1.97	0.73	0.86
Chile	115.3	159.1	130.6	3.25	2.35	1.00 ^e	1.28
Ecuador	163.4 ^a	97.1	85.3	1.79 ^c	2.79 ^a	...	...
El Salvador	88.0 ^a	100.0	80.0	1.86	1.56 ^a	0.56	0.51 ^f
Guatemala	71.7	28.5	86.5 ^g	2.01	2.71	...	0.32
Honduras	121.5 ^h	80.2 ^h	100.3 ^h	...	2.15 ^a	...	0.23 ^a
Mexico	129.0	135.9	149.8	2.20	2.08	0.52	0.48 ⁱ
Nicaragua	86.9	84.7	83.3	2.10	2.16	0.20	0.40
Panama	104.9 ^j	78.8	116.4	1.86	2.29 ^j	0.42	0.54
Paraguay	110.0 ^a	72.9	90.6 ^j	1.17 ^c	1.58 ^a	0.65 ^e	0.71 ⁱ
Peru	80.1	81.4	102.4	2.05 ^k	2.05	0.28 ^k	0.37
Dominican Republic	107.6 ^l	85.6 ^a	...	2.11	2.40 ^l	...	...
Uruguay	61.4	88.0	115.9	2.47 ^b	1.92	1.00 ^e	1.41 ^a
Venezuela	115.1	72.2 ^b	...	...	3.73	...	...

Source: PREALC, on the basis of information from each country.

Note: In the ratio between agriculture and construction, the figures in italics are indexes with a base equal to 1.00 for the period indicated.

^a 1977-1978.

^b 1970-1971.

^c 1968-1969.

^d Base 1971 = 100

^e 1967-1968.

^f 1974.

^g Base 1973 = 100.

^h Base 1974 = 100.

ⁱ 1975-1976.

^j 1976-1977

^k 1966.

^l 1975.

II

Employment aspects in the economic and social development strategy for the 1980s

1. Possible scenarios

Trends in employment problems over the past 30 years determine the point of departure on which the strategy for the 1980s will have to be based. The question now, therefore, is how big the challenge to be faced will be.

Firstly, if the rate and characteristics of the economic growth prevailing in the recent past

(an annual growth rate of 6.2%) are maintained during the period 1980-2000, the results obtained from a projections exercise done by PREALC suggest that 10 of the 14 national economies analysed will not make significant progress in reduction of the underutilization of the labour force. Secondly, stepping up the growth rate of the region as a whole from 6.2% to 7.5%, combined with a more intense applica-

tion of policies to promote the creation of productive employment, could help to accelerate the rate of reduction of the level of underutilization, which could fall from approximately 20% in 1980 to 16.2% in 1990 and 12.5% in the year 2000. Finally, the prospective analysis suggests that if it is desired to reach a level of underutilization equal to that prevailing in the industrialized economies by the year 2000, the growth rate will have to be around 8.3% annually for two decades, and public policies will have to be even more intense. This implies requirements which are too high for a large group of countries in the region (see table 5).

2. Employment and the overall orientation of the strategy

In the light of the foregoing, it is worth emphasizing two aspects related to the overall orientation of the strategy: firstly, the lack of automaticity of the process, and secondly, the need to plan action aimed at supporting both low-productivity activities and modern ones.

The past experience of Latin America suggests that the problem of employment is not resolved automatically with economic growth. Perhaps the main conclusion to be drawn from the experience of past decades is that despite the high growth rates achieved by the region it only managed to make very slow progress in the solution of the problems of employment and income. For this reason, the speeding-up of growth is a necessary but not a sufficient condition for improving the employment situation

more rapidly. In addition, and as a result of the above, it has become indispensable to translate specific employment goals into the design of the global and sectoral policy instruments which are included in the development strategies. It is not a case of formulating *ad hoc* employment strategies but of fully incorporating the employment objective into global strategies.

In addition, it will be necessary to act simultaneously on various different fronts. In view of the concentration and persistence of the employment problems in low-productivity activities, both informal urban and traditional rural, direct policies are necessary in order to try to raise the productivity and income of persons working in these sectors. A long-term solution for the problems of employment can only be reached, however, by increasing the number of more highly productive jobs which are normally generated in the modern sectors of the economy. Thus, the acceleration of the growth of these sectors will have to be accompanied by restructuring and expansion of their labour force absorption capacity.

In this context, and in view of the basic importance which creating jobs in manufacturing industry has had in the past and the continuing debate (given the changes which have occurred in economic strategies and policies) on its role in the coming decade, the final comments here will concentrate on this particular factor.

Table 5

LATIN AMERICA: GROWTH AND UNDERUTILIZATION OF LABOUR FORCE, 1950-1980

Country	Underutili- zation 1980	Historical trend		Accelerated growth		Growth required	
		Growth ^a	Underuti- lization ^b 2000	Growth ^a	Underuti- lization ^b 2000	Growth ^a	Underuti- lization ^b 2000
Group A	19.7	6.7	19.1	8.0	10.0	8.4	6.4
Group B	36.3	5.3	46.0	7.3	36.6	11.8	10.0
Group C	8.2	4.0	5.0	5.8	3.0	5.9	2.8
Latin America (14 countries)	19.9	6.2	20.8	7.5	12.5	8.3	6.5

Source: PREALC, *El subempleo en América Latina...*, op. cit.

^aProjected annual growth rate.

^bEquivalent and open unemployment as percentage of EAP. The groups comprise the same countries as in table 2

III

Changes in economic strategies and policies and the labour markets

Most of the countries of the region, after having made definite progress in the process of import substitution in the 1950s and 1960s, began to move successfully towards greater exportation of manufactured products in the 1970s. More recently there have also been trends towards greater openness through reductions in the levels of protection of national production.

This process, especially in its later stages, has affected the levels and the structure of employment in very different ways, largely reflecting the readjustment of the national economies to world market conditions and, at least theoretically, their adaptation to those sectors where there are greater comparative advantages. In particular, this has meant a loss of the relative priority of industrialization as a moving force for development in various countries.

It may be recalled that the basic principle of the institutional attitude maintained by CEPAL with respect to industrialization from the late 1950s was mostly inspired by the need to generate jobs with high productivity for those persons who, as a result of the incorporation of technical progress into the primary sectors, would be displaced and unable to find sources of productive absorption. The later difficulties in foreign trade reinforced the original ideas, but they also helped to observe the fundamental fact that, even if the balance-of-payments problems could be solved without industrialization, the great dilemma of absorbing the entire labour force fully and productively would remain. Thus, a change in priorities can have important effects on employment.⁴

This is not the place to evaluate the industrialization process followed by Latin America. Although there is a consensus that errors were committed, it is also agreed that in

spite of these the region has acquired a level of industrialization which places it among the most advanced in the developing world. One could not speak today about the problems of industry or about the possibilities of exporting manufactured goods if the capacity for industrial production had not been developed previously.

We should therefore stress the role which has been played by manufacturing in the past in terms of the absorption of labour force. During the past 30 years direct manufacturing employment grew at a rate of 3.4% annually,⁵ and if the indirect employment generated is added to this, the rate rises to 3.8% annually. Moreover, the creation of manufacturing jobs with high or intermediate productivity was even higher, reaching 3.8% annually between 1950 and 1980.⁶ These figures clearly show the decisive role played by industrialization in the direct and indirect generation of jobs and, in particular, in the creation of productive jobs. It should be noted also that the 30 years it took Latin America to increase the share of manufacturing employment in the total from 14% to 19% is a similar length of time to that required by the United States (1860 to 1904) to show identical achievements.⁷

It is also important to note that the de-

⁵If Argentina is excluded, which had already achieved a considerable level of industrial development (24% of total employment) by 1950, the growth rate of manufacturing employment amounts to 4% during the same period.

⁶It should be noted that changes in composition have been occurring in the sectors of higher productivity. Thus, for example, in the case of Mexico high-productivity industry generates employment at higher than average rates, while that of intermediate productivity does so at lower rates. Very small firms (less than 5 employees) have retained their share in manufacturing employment. See N. García, *Empleo manufacturero, productividad y remuneraciones por tamaño de establecimiento* (México, 1965-1975), *Monografías sobre empleo*, No. 18, Santiago, PREALC, 1981.

⁷Once again, if Argentina is excluded, the progress made by Latin America in the past 30 years is comparable to the 44 years required by the United States (from 1860 to 1904).

⁴See, for example, A. Pinto, *La estrategia hacia el futuro y las ideas básicas de la CEPAL*, Santiago, CEPAL, 1981.

velopment experiences cited today as being so successful in South-East Asia were based largely on export industrialization in order to generate, directly or indirectly, the required productive jobs.⁸ In these countries, the absorption of labour by industry occurred as a result of the development of lines of activity characterized by comparative advantages acquired during the process of export industrialization itself.⁹

It is also worth examining the reasons why the developed countries of the centre, both in Europe and North America, are protecting with high tariffs and in a discriminatory manner, those manufactured products which are known to be the most absorptive of labour in the developing countries. It does not appear to be a chance occurrence that the protectionist trends reappearing in the central countries are most frequently aimed at this type of product and not at others.¹⁰

We must ask ourselves how to transform Latin American industry in order to reduce domestic costs and allow it to compete successfully in external markets. Such changes are needed in order to avoid the high costs of inefficiency, and there are at least three areas which should be given priority attention by policies. The first is the cost of readjusting the industrial structure, which should not be done at the expense of generating a huge mass of unemployed persons who, unlike what occurs during recessions, will have characteristics of more

permanent unemployment; in addition, it is not so much young people and women who will be affected; instead, the greater impact will begin to be felt by heads of households and unionized workers and sectors of the large industrial centres of our region, with resulting social tensions.

Secondly, we must ask ourselves what type of industrialization is desired, since it is agreed that it is not enough today merely to promote an industry capable of competing internationally: it is also indispensable to take into account what such an industry is required for and who will be the beneficiaries of the fruits of its development. In both senses, an important element (although not the only one) is that industrialization processes should be required, even more than in the past, to create productive jobs. All kinds of goods and services, from sophisticated technological knowledge to essential goods to satisfy the basic needs of the population, can be imported from abroad, but worthwhile jobs which make it possible for the worker to earn enough income and realize his or her individual work potential cannot be imported. In addition, in economic structures such as those of Latin America, the primary distribution of income is what finally determines the final distribution, limiting the effect of possible welfare policies which operate through incomes and not through employment.¹¹ Thus, any modifications of economic strategies and policies should clearly identify which sectors of activity will have sufficient capacity to absorb the annual growth in the labour force productively in the next decade and, at the same time, help to solve the existing underemployment.

Finally, the changes which are taking place in Latin American economic structures affect the determination of wages and, in particular, wage negotiations in at least two important ways. Firstly, the margins for negotiation are reduced, since the possibilities of transferring wage increases to prices are limited as a result of greater openness. Secondly, the interests of the workers become in-

⁸Taiwan, South Korea, Hong Kong and Singapore increased their exports of manufactures from US\$ 500 million in 1963 to US\$ 19 billion in 1977. Manufacturing employment in the last three countries grew by approximately 10% annually during the 1970s.

⁹It is also obvious that historical and geographical circumstances, the lack of abundant resources and in some cases a relatively high educational level were influential factors.

¹⁰A recent study by PREALC analysing the situation in Brazil, Mexico and Colombia shows that the export sectors with the greatest capacity to generate employment (wood, textiles, clothing, leather and footwear) are those which are facing growing difficulties in gaining access to international markets, and that the tariff and non-tariff barriers applied to those sectors in the United States, the EEC and Japan are higher than average. See PREALC, *Efecto en la generación de empleo de las exportaciones de productos industriales de América Latina y el Caribe a los países desarrollados*, Documentos de Trabajo series, No. 200, Santiago, PREALC, 1981.

¹¹See PREALC, *Necesidades esenciales y políticas de empleo*, Geneva, ILO, 1980.

creasingly diversified, both because of the changes in the employment structure between sectors and because of the reorganization of jobs within firms. The former changes mean that the most organized sectors, corresponding to such traditional industries as textiles, for example, lose participation, while within the firms the activities related to foreign trade and management of capital markets begin to gain ground over production occupations. All this leads to the introduction of a greater diversity of interests in the bargaining process.

These changes suggest two types of reflections. The first is the need to recognize the new factors affecting both workers and employers. The second is the need to create a consciousness of the growing importance of the definition of the overall orientation of the development strategy, since the possibilities for improving each firm or sector are ultimately determined by the decisions adopted for the economy as a whole.

In conclusion, it is worth noting what we consider to be the basis of our proposal: a permanent solution to the employment problem can only be found through integrated economic

and social development. Thus, we feel that there are no magic strategies for solving the problem: the strategies followed in the past were not all bad, nor are those proposed for the future capable of solving everything.

Latin American memory is short, and perhaps the best recommendation that can be made at this time is that the positive and negative lessons of previous experience, of our interpretations and of the evolution of phenomena such as those presented should be taken into account. The lessons of experience show that although there are common economic features among our countries which argue for regional approaches, the differences are also great and become even more marked in the case of designing strategies to solve specific problems.

Finally, it seems relevant to sound a note of caution regarding the temptation to embrace simplistic solutions, since such an experiment may involve a high and poorly distributed cost when it is not known in advance whether the results will eventually contribute to a permanent solution to the problems being faced.

The concept of integration

*Isaac Cohen Orantes**

The concept of integration dates back a long time, although it has been used as an economic term only since the Second World War, when it was used to explain one of the objectives of the programmes for the reconstruction of Europe. Since its distant origins, its meaning has changed according to circumstances, which justifies an exploration of its various meanings in order to give them a sense appropriate to the present circumstances.

This article does not have a merely semantic purpose, however, as it attempts to shed light on the term by adapting it to reality as far as possible, in order to derive from it more viable integrationist measures. In other words, it is an attempt to define integration so as to identify concrete measures capable of being adopted and carried out. This does not mean, of course, that a simple clarification of the concept of integration is enough to overcome the difficulties involved in the process. This approach does, however, recognize that overcoming these difficulties requires, *inter alia*, the development of a suitable definition.

The study is divided into two parts. The first is a review of the definitions of integration most frequently used at present, in order to define their common features and some of their disadvantages; the second part offers an alternative definition and analyses its components and some of its advantages.

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I

Some traditional definitions

In this part of the study, two types of traditionally used definitions of integration are described. The first may be called economic and the second political. The purpose of this description is to draw some conclusions, based on the experience of recent years, on their possible disadvantages with regard to the feasibility of the integrationist measures which these two definitions are capable of generating.

A. THE ECONOMIC DEFINITION

The economic definition of integration refers to the process by which two or more countries proceed to eliminate, gradually or immediately, the existing discriminatory barriers between them for the purpose of establishing a single economic space. In this conception, integration tends to create an economic space between the participants which serves as a basis for establishing a new division of labour between them, in order to meet the needs of this space and within which the products and factors, or both together, enjoy freedom of movement. The latter can be achieved by eliminating the existing discriminatory barriers which impede the free circulation of products and factors within this space.

However, this latter state of affairs will only be reached at the end of the evolution of the process.¹ Thus there is a need to specify the various steps which must be taken to achieve this goal gradually but lineally. As these steps are well known, they need only be referred to briefly. They begin with a free trade area, characterized by the free mobility of products; they then require the establishment of a common tariff barrier towards the outside, thus arriving at a customs union. The accomplishment of these two steps makes possible the mobility of the factors of production, thus resulting in a

¹This distinction between integration as a process and as a state of affairs was made by Bela Balassa in *The Theory of Economic Integration*, London, George Allen and Unwin Ltd., 1961, p. 1. As a process it includes "measures designed to abolish discrimination between economic units belonging to different national states"; and as state of affairs it means "the absence of various forms of discrimination between national economies".

common market, and finally comes co-ordination of policies, establishing economic union. In other words, a broader economic space is created within which a new division of labour will exist, based on the free movement of factors and products.

This economic concept of integration, as mentioned earlier, was the result of the historical circumstances at the time when it was used. As such, it served as a basis for the adoption of a set of economic policy measures whose influence may still be felt today.

Thus, for example, the use of this concept may be seen in such official pronouncements as that made by Paul Hoffmann on 31 October 1949, in his capacity as Administrator of the Economic Co-operation Administration of the United States Government, to the Organization for European Economic Co-operation (OEEC). Hoffmann felt that it was urgent at that time to make more rapid progress towards "an integration of the Western European economy" and explained the meaning of the term as follows: "The substance of such integration would be the formation of a single large market within which quantitative restrictions on the movements of goods, monetary barriers to the flow of payments and, eventually, all tariffs are permanently swept away".²

It is no accident that this same concept underlies the provisions on economic integration contained in Article XXIV of the General Agreement on Tariffs and Trade (GATT). As is well known, the international economic order built up after the war basically sought, in matters of trade, to develop relations based on the principle of free trade. This concept took the form of the abovementioned General Agreement, one of whose objectives is "the elimination of discriminatory treatment" among the Contracting Parties. By this term is meant "any advantage, favour, privilege or immunity granted by any Contracting Party to any product originating in or destined for any other country".³ The mechanism through which this

principle of non-discrimination was to be put into practice was that of the most-favoured-nation clause, or in other words, in negative terms, the basic objective of the General Agreement consists of the elimination of any type of discriminatory practices against third parties. This prohibition, however, expressed in general terms, also extends of course to partial agreements on economic integration, and this is why such agreements are expressly exempted from the above prohibition, as long as they meet certain requirements.

This distinction between preferences and integration agreements was clearly expressed by a member of the United States delegation to the General Agreement negotiations, which were also based on a proposal by the United States Government:

"A customs union creates a wider trading area, removes obstacles to competition, makes possible a more economic allocation of resources, and thus operates to increase production and raise planes of living. A preferential system, on the other hand..., obstructs economy in production, and restrains the growth of income and demand... a customs union is conducive to the expansion of trade on a basis of multilateralism and non-discrimination; a preferential system is not".⁴

On the basis of these considerations, article XXIV of the General Agreement recognizes the potential for trade integration carried out through the establishment of customs unions or free trade areas, which may be arrived at immediately or after a transition period, and it also enumerates the requirements which must be fulfilled by agreements concluded between member countries of the Agreement.⁵ These requirements are:

ment and the second defines what is meant by most-favoured-nation treatment. See General Agreement on Tariffs and Trade, *Basic Instruments and Selected Documents*, Vol. 1 (GATT/1955-1), Geneva, April 1955, pp. 7-11.

⁴Clair Wilcox, *A Charter for World Trade* (New York, Macmillan, 1949), pp. 70-71.

⁵A good analysis of the origins and meaning of article XXIV may be found in Gerard Curzon, *Multilateral Commercial Diplomacy* (London: Michael Joseph, 1965), pp. 260-289; and Kenneth W. Dam, *The GATT Law and International Economic Organization* (Chicago: The University of Chicago Press, 1970), pp. 274-295.

²The use of the term has recently been studied by Fritz Machlup in *A History of Thought on Economic Integration* (London: The Macmillan Press Ltd., 1977), pp. 3-12, from which this quotation was taken.

³The first article refers to the objectives of the Agree-

(a) In the case of customs unions, tariffs and other trade regulations imposed on trade with third parties shall not, on the whole, be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union;

(b) With respect to free-trade areas, the duties and other restrictive regulations shall be eliminated with respect to substantially all the trade in products originating in the constituent territories;

(c) Finally, and perhaps of the greatest interest for the purpose of this study, any agreement to achieve any of the two abovementioned targets shall include a plan and schedule for its establishment within a reasonable length of time.

It follows from these provisions that any economic integration agreement aimed at the later consideration of the first two steps of the process, in order to be acceptable in the context of the existing legislation, should establish either of these two alternatives as a goal and should also be accompanied by a schedule for achieving them.

Leaving aside the way in which these norms have been applied and the influence they have exercised, especially in Latin America,⁶ it can be seen how the above concept had an effective impact on the content of the applicable international trade provisions. Later, when the possibility of establishing a Latin American common market was raised, the United States Government stated that it would support such proposals only if the requirements stipulated in article XXIV of the General Agreement were fulfilled.⁷

⁶Germánico Salgado, in "Los conceptos básicos de la integración latinoamericana y su reevaluación a la luz de la experiencia" (typescript, undated), analyses how article XXIV has been applied in Latin America. See also Kenneth W.S. Dam, "Regional Economic Arrangements and the GATT", in *University of Chicago Law Review*, XXX (1963), pp. 615, 644-646.

⁷Under-Secretary of State Douglas Dillon enumerated these conditions at the meeting of the Committee of Twenty-One of the OAS, held in Washington in February 1959. See United States Congress, Senate, *United States and Latin American Policies Affecting their Economic Relations*, study prepared by the National Planning Association at the request of the Sub-Committee on Inter-

To complete this section, it should be stressed that the concept of economic integration accepted at the time had a decisive influence on the prevailing international norms and the external sector policy of some governments. Thus, the total elimination of discriminatory barriers among the participants, making possible the establishment of a single economic space among them, was the accepted meaning of the term.

B. THE POLITICAL DEFINITION

The political definition of integration attempts to take care of the political implications involved in the development of a process aimed at creating a larger economic space among the participants. It therefore places less emphasis on the elimination of barriers or the co-ordination of policies, because it is more interested in the institutional consequences of the adoption of such measures. In other words, this concept deals with the need to establish, along with the integrated space, an institutional centre capable of regulating the functioning of the economic relations within the space.

For these reasons, and from this perspective, integration is seen as a process by which the participants transfer to a more powerful body the loyalties and powers needed to regulate their relations within the larger space or unit.⁸

Unlike the economic concept, this definition of the institutional requirements which must accompany the creation of the integrated space does not attempt to specify the stages through which this evolution must pass, although it accepts the possibility of its gradual occurrence. Instead, it holds that this transfer of functions and powers to the institutions of the process occurs almost automatically, through "spillover" of the originally limited objectives,

American Affairs of the Foreign Relations Committee, Washington Government Printing Office, 1960, pp. 64-65.

⁸This is the definition used by Ernst B. Haas and Philippe C. Schmitter in their paper "Economics and Differential Patterns of Political Integration: Projections about Unity in Latin America", in *International Political Communities: An Anthology* (New York: Doubleday, 1966), p. 265.

and this is the trigger for the growing politicization of the integration process.⁹

As in the economic definition, circumstances have played a decisive role in shaping this way of conceiving the process. The experience of Western Europe in the field of economic integration lies at the basis of this approach, especially as regards the hope that the process begun in this part of the world in economic aspects, would eventually lead to the transfer of powers and loyalties to common institutions, whereby greater unity among the participants would gradually be achieved.

However, this political concept, unlike the economic one, did not have as much influence as the latter over the foreign policy of certain governments or over the constituent norms of some international organizations. Its influence was rather felt in a considerable number of academic studies on the various economic integration schemes existing in the world, including those of Latin America.¹⁰

The latter have sought, in the Latin American context, to identify circumstances similar to those of Europe with the aim of promoting in the regional context a similar process to that which it was expected would take place in Western Europe.¹¹

The circumstances have evolved differently in the two cases, however. The process of transferring loyalties and powers has not occurred in reality with the desired automaticity, and it has not been possible for the lessons learned by the participants with respect to co-

operation in relatively less controversial areas, such as economic ones, to be applied or transferred to other relatively more controversial areas, such as those related to security and foreign policy.¹²

In other words, the fact that the greater unity of the participants has not occurred with the expected speed and automaticity has made it necessary to revise this concept, largely based on the optimism encouraged by the initial success of the economic integration of Western Europe. The relative stagnation of the latter, in contrast with the hopes for growing politicization deposited in it in line with this concept, has also called into question the appropriateness of viewing the integration process from the perspective of the final goal expected to be reached eventually.¹³

Circumstances, then, have imposed the need to seek a more modest conception which would be more relevant to integration, especially in view of the impossibility of "transcending the nation-State", which was one of the main objectives of previous political conceptions.

C. COMMON FEATURES OF BOTH DEFINITIONS

The above definitions, although described very briefly, are the two dominant concepts of integration in the recent past; as there are more similarities than differences between them, the former will be presented here for the purpose of extracting their most serious disadvantages from the point of view of the policy measures which may be derived from their use.

⁹Philippe C. Schmitter, in "Three Neo-Functional Hypotheses about International Integration", *International Organization*, Vol. 23, No. 4, 1969, p. 162, has defined spillover as the process whereby "members of an integration scheme—agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals—attempt to resolve their dissatisfaction either by resorting to collaboration in another, related sector (expanding the scope of the mutual commitment) or by intensifying their commitment to the original sector (increasing the level of mutual commitment) or both".

¹⁰A good review of these experiences may be found in Roger D. Hansen, "Regional Integration: Reflections on a Decade of Theoretical Efforts", in *World Politics*, Vol. 21, No. 2, January 1969, pp. 257-270.

¹¹Ernst B. Haas engaged in this search for what he calls "functional equivalents" in "The Uniting of Europe and the Uniting of Latin America" in *Journal of Common Market Studies*, Vol. 5, No. 4, June 1967, pp. 315-343.

¹²This was the tenor of the early criticisms of such optimism made by Stanley Hoffmann, "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe", in *International Regionalism: Readings*, J.S. Nye (ed.), Boston: Little Brown, 1968, pp. 177-230; and, by the same author, in "The European Process at Atlantic Cross-purposes", in *Journal of Common Market Studies*, Vol. 3, No. 2, February 1965, pp. 85-101.

¹³See the self-critical reflections of Ernst B. Haas, "The Study of Regional Integration: Reflections on the Joys & Anguish of Pretheorizing", in *International Organization*, Vol. 24, No. 4, autumn 1970, pp. 607-646; also, by the same author, *The Obsolescence of Regional Integration Theory*, Research Series No. 25, Institute of International Studies, University of California, Berkeley, 1975.

Possibly the most salient common feature shared by the two definitions is the stress laid on the result of the integration process, that is, on its final goal, which is the establishment of a larger space—in the case of the economic definition—or the creation of a greater unit, in the case of the political one.

This coincidence stems from the belief, shared by both, that integration is a special process consisting of the grouping of parts into a whole; this requires that the process should be defined in relation to the totality and that the measures directed towards its establishment should be weighed up from the point of view of their gradual and partial contribution to the achievement of the goal.

Both definitions also share the feature of linearity, through the way in which the goal is expected to be achieved, this being characterized by an ordered succession of steps, in the case of the economic definition, or by automaticity in the case of the political one.

In these two shared features of the two definitions lie their most serious disadvantages, as judged in terms of their negative influence on the type of integrationist measures based on them which are likely to be identified and proposed.

The inclusion of the final goal in the definition is one of its most serious disadvantages, because it has the drawback that, generally speaking, the integrationist measures are evaluated on the basis of the contribution they may make to achieving this goal, thus often disregarding their own intrinsic value. Moreover, as the integration processes are of a long-range nature and the achievement of the final goal often requires more time than originally foreseen, intermediate or partial integration measures are considered inadequate because of their small contribution, as judged in relative terms, to reaching the final goal. This frequently causes the impression that partial measures, when contrasted with the size of the goal, are merely manifestations of a certain inertia in the face of the impossibility of creating the wider economic space or greater unit as fast as had been hoped.

Secondly, the inclusion of the final goal in the definition creates another important limitation with regard to the identification of integra-

tionist measures, for similar reasons to those stated above. Since these measures are only considered as such if they contribute to reaching the final goal, steps may frequently be “skipped” and measures proposed which are unfeasible in the current circumstances but whose justification lies in the fact that they will be required when the goal is reached, or in order to reach it more quickly. Thus manifestly necessary proposals for the establishment of the larger space or unit, such as the co-ordination of policies, creation of a common currency, or granting of supranational powers to the institutions of the process, may come up against present realities characterized by the separate but interdependent existence of the participating States, which jealously reserve or seek to reserve certain areas for their exclusive, sovereign control.

Finally, definitions which include the final goal may also be criticized for their excessive formalism, as they make no reference at all to the consequences for the participants of the execution of measures aimed at reaching the goal—for example, the elimination of barriers or the creation of a supranational body. These definitions make hardly any reference to what will happen or what the adoption of such measures will mean for the participants. Can it be asserted that the supranational body will be provided with the necessary powers to distribute equitably the costs and benefits of the integrationist measures among the participants? Can it be guaranteed that the flows of products and factors will equally benefit all the participants? Historical experience, on the contrary, indicates that total unification does not affect all the parties equally, as can be seen in cases such as Southern Italy or Northeastern Brazil.

The truth is that the answers to these questions cannot be given ahead of time with enough certainty to induce member governments to accept these measures without being in a position to assess their consequences. In other words, since the doubts raised among participants about the adoption of such measures cannot be dispelled in advance, the participants can only be offered a path towards a goal which will generate benefits and costs without exactly specifying their distribution.

But this path is fraught with uncertainty, especially since following it requires the participants to give up present benefits, which are certain but perhaps smaller, in exchange for future benefits, which are uncertain but perhaps larger.

For these reasons, the above definitions of integration do not seem to be the most suitable for the design of feasible integrationist measures. The fact that both include the final goal and require a certain linearity to achieve it leads to undesirable consequences, since this prevents the development of proposals more

suited to the present reality or to some other reality at which the participant States will arrive before reaching the goal.

appropriate alternative definition so that measures can be derived from it which are more compatible with reality.¹⁴ This is even more true in view of the fact that the above definitions were the result of the current situation at the time of their development, because recent changes which have occurred in the prevailing international system likewise require the way of conceiving integration to be adapted to the new circumstances.

II

AN ALTERNATIVE CONCEPTION

With the aim of trying to find another conception which might be used for identifying feasible integrationist measures, this section offers an alternative definition, analyses its elements and concludes by pointing out some of the advantages which might be derived from it.

A. THE DEFINITION AND ITS ELEMENTS

In order to avoid some of the difficulties mentioned, integration is defined as the process by which two or more governments, with the support of common institutions, adopt joint measures to strengthen their interdependence and thus obtain mutual benefits.¹⁵

It is important to stop and analyse carefully the elements of this definition. In the first section below it is stressed that integration is still seen as a process; in the second the actors or protagonists in this process are discussed, and

in the third the objectives it pursues are indicated.

1. *Integration as a process*

The need to see integration as a process stems from the fact that it deals with a series of activities which take place in a continued manner. Thus, viewing it as a process gives it the appropriate time dimension, and shortlived activities which might occur between two or more States are excluded from the definition. In other words, the set of activities has a certain continuity through time.

It should be noted, however, that the notion of process does not necessarily imply the final goal, so that the present definition differs in this way from the central characteristics of the two definitions described above. This in no way means that the process does not have objectives. On the contrary, and this will be commented on further below, the process has an objective which consists of the promotion of mutually beneficial interdependence among the participants. What the process thus conceived does not have is a final goal, or state of affairs, which it must inevitably reach, as understood in spatial terms. That is, it is not a process directed towards establishing a larger space or unit, but a state of becoming, endowed

¹⁴This is the basis of the critical observations of Helmut Janka in his article "la 'racionalidad' de la integración y la 'irracionalidad' de la realidad", in *Comercio Exterior*, Vol. 27, No. 7, Mexico City, July 1977, pp. 762-770.

¹⁵This definition is based on the work of Robert O. Keohane and Joseph S. Nye, "International Interdependence and Integration", in Fred I. Greenstein and Nelson W. Polsby (eds.), *Handbook of Political Science*, Vol. 8: *International Politics* (Reading: Addison Wesley Publishing Co., 1975), pp. 363-414.

with intrinsic value; it is not an evolution towards a predetermined goal which must be arrived at inevitably or lineally merely by taking certain steps which are also predetermined.

This concept of integration as a process without a final goal, but with an objective, makes it possible to include any partial measures which might be adopted with a certain continuity by the participants for the purpose of obtaining mutual benefits, as would be the case of granting trade preferences for a limited number of products. In this latter case, it is interesting to observe that the circumstances also seem to have been more powerful than the definitions. Preferential schemes exist today: for example the Lomé Convention between the European Community and some developing countries of Africa, the Caribbean and the Pacific; or generalized systems of preferences in the developed countries. Thus, it may be considered that the time is past when this type of measure was considered an attack against the almost sacrosanct principles of free trade promulgated after the Second World War.

Finally, and perhaps most importantly, a process without a goal but with an objective makes it possible to free integration from the participants' apprehensions with respect to the creation of a larger unit within which, practically speaking, they are doomed to disappear, since the existence of a supranational body necessarily assumes that some of the sovereign powers of the participant States will be transferred to this body. In this way, member governments can attempt to satisfy some common objectives without endangering their own existence.

2. *The actors or protagonists*

The second element of the proposed definition refers to the participants in the process. Firstly, it is suggested that joint measures should be adopted by two or more governments, but with one essential qualification: this should be done with the support of common institutions, thus allowing the relations established in the integration process to be differentiated from those which normally occur within the international system.

The participation of common institutions

means not only that the joint activities must have a certain continuity through time but also that they will be subject to institutionalized procedures.¹⁶ This means that these relations must be subject to a set of norms which identify procedures acceptable to all the participants willing to adopt decisions among themselves. Acceptability to all participants, in turn, implies the adoption of decisions by consensus rather than by coercive means of supranational majority rule, all of which is consistent with the requirement that it should be the governments who adopt the decisions, but that there should be no intention of superseding them by creating or establishing a greater unit out of them.¹⁷

Thus, the voluntary participation and consensus implied by this requirement guarantee that the decisions thus adopted will be carried out, unlike what happens in some processes where a system exists which adopts decisions by majority rule, so that the State against whose will a given decision was adopted does not feel obliged to abide by it. What is important is that decisions should be adopted because they are in the interests of the participant governments and not because they are required, frequently with too much formality, by certain norms embodied in a basic agreement whose provisions leave the participant who disagrees no alternative but to violate them.

Moreover, the purpose of the norms needed to institutionalize an integration process is to establish the rules of the game in accordance with which the relations among the participants will develop. In order to achieve this,

¹⁶On the role of institutions in integration processes, see Lawrence B. Krause and Joseph S. Nye, "Reflections on the Economics and Politics of International Economic Organizations", in *International Organization*, Vol. 29, No. 1, winter 1975, pp. 323-342; Philippe C. Schmitter, "The Organizational Development of International Organizations", in *International Organization*, Vol. 25, No. 4, autumn 1971, pp. 917-937; and Sudan Sidjanski, *El papel de las instituciones en la integración regional entre países en desarrollo* (Sales No.: S. 73.II.D.10), New York, United Nations, 1974.

¹⁷It has been claimed that respect for national sovereignty is one of the principles of socialist integration, whereas capitalist integration restricts the sovereignty of the participants and is aimed at the creation of supranational bodies. V.I. Kuznetsov, *Economic Integration: Two Approaches*, Moscow: "Progress" Publishing House, 1976, p. 34.

these rules must specify and grant legitimacy to the various generally acceptable methods of influencing the result of the decisions to be taken.

However, the role of the institutions involved in the integration processes is not simply a legitimizing one: they must also carry out certain tasks essential for the development of the process itself, among which are the taking of initiatives to promote the adoption and execution of those decisions which are considered to be of mutual benefit to all the participants. This excludes from the proposed definition the requirement that the institutions involved in an integration process must be given supranational powers, although it does not definitively prohibit this. What is essential, on the contrary, is that the institutions should have adequate capacity and autonomy for identifying and proposing joint solutions to shared needs and problems and also promoting their adoption and implementation, which does not mean that they must be granted supranational powers nor, consequently, that the member States must transfer powers which they consider to be of their exclusive or sovereign dominion. Instead, what is required is that the institutions should show imagination in discovering common measures which will allow the participants to solve common problems, and the capacity to promote their approval and execution. Finally, the radius of action of the institutions will definitely depend on the coverage of the process, that is, the determination of member governments to subject some or many sectors to common treatment.

3. *The objective of the process*

As already mentioned, the fact that the process has no goal does not in any way mean that it has no objective. The lack of a goal removes from the definition proposed here the drawback caused by the tendency to evaluate its activities in terms of this goal, but it does not mean that the process becomes an end in itself.

The objective of the process consists of strengthening the interdependence of the participants, but with the idea that this strengthening will create mutual benefits. Both terms, that

of interdependence and that of mutual benefit, need to be clarified.

What is meant by interdependence? It is the degree to which the events which occur in one State affect another State or States, deliberately or spontaneously. Thus, interdependence may have different degrees of intensity, from minimum to maximum. In this respect, all States in the international system are interdependent to a greater or lesser extent. What should therefore characterize an integration process is the deliberate pursuit of the intensification of interdependence among the participants, as long as this results in mutual benefit for all.

The idea of strengthening interdependence, in turn, has two sides, and it may have a different scope or level. By scope is meant the number of sectors included in the joint activities of the participants; and by level is meant to what extent the activities involved in interdependence are entrusted to common institutions. In other words, scope refers to the coverage or number of activities, while level refers to the degree of institutionalization. Both may be present, separately or simultaneously, in different activities or in the same activity.

However—and this should be stressed—increasing the scope and level of interdependence in an integration process is not an end in itself, because this may have harmful or beneficial consequences for the participants.¹⁸

Thus, for example, the type of interdependence established between the industrial centres and the countries of the less developed periphery ultimately had negative consequences for the latter, and this is not exactly the type of experience which should be repeated in the relations being promoted among the countries of the periphery. Integration, understood in the terms suggested here, includes only those measures which can generate benefits for the participants. Thus, it is necessary that the intensification of interdependence should generate mutual benefits, while the possible negative effects it may have, or actions which cannot generate benefits, should not form part of the present concept of the integration process.

¹⁸See Gregory Schmid, "Interdependence has its Limits", in *Foreign Policy*, No. 21, winter 1975-1976, pp. 188-197.

The notion of mutual benefits, in the case of integration among developing countries, means to what extent the integrationist measures contribute to the development of the participants; but since it is assumed that such measures will not be carried out for the purpose of achieving total integration but rather may consist of measures which are partial but intrinsically beneficial, it cannot be expected that the process will solve all the problems caused by underdevelopment. Thus conceived, integration becomes a supplement to national development efforts, rather than a panacea capable of solving all the problems arising from the relatively lesser development of the participants. This latter point is important, since it allows for the expectation that integration will contribute what it can, rather than attributing to it the greater possibilities which would be expected of it if it were assumed that it would lead to total unification.

In addition, the idea of mutually beneficial interdependence enables the process to be carried out to the level and extent that circumstances permit. The participants may thus consider their contribution from the point of view of the benefits they will derive from it, instead of evaluating the process according to the distance they still have to go to reach a final goal in a relatively distant future.

In any case, the objective of integration among developing countries should be the contribution it can make to the efforts that each one is deploying to overcome this condition, rather than the creation of a larger economic space or unit over a long period of time, whose consequences are difficult to evaluate in advance. It should be noted that this does not mean that this larger space or unit may not eventually be created, but merely that this should not be the objective of integration.

Finally, the notion of mutual benefit should be further clarified. There are three types of benefits to which participants in an integration process may aspire. Firstly, there are the economies of scale; secondly, the indirect benefits and, finally, the increase in their bargaining power with third parties.¹⁹ Integra-

tion activities should be identified and assessed in the light of these benefits, so that they may be adopted and carried out according to the participants' interest in obtaining them. This also helps to prevent the problem of the distribution of such benefits from becoming one of the most serious obstacles to the process, and is in sharp contrast with the situation where pursuit of the final goal means adopting measures whose consequences are difficult to calculate in advance, but which sooner or later create dissatisfaction with the way in which the effects are distributed. It is thus preferable to set out with this in mind and to try to design measures in the light of the distribution of the benefits they are able to generate, instead of trying to correct the inequalities *ex post facto*, because this sometimes requires the adoption of much more energetic measures than the participants are prepared to take, precisely because of the distributive inequalities revealed by the process. This is another reason for trying to avoid in advance the consequences which the inequality of distribution may have for the perception of the process, since such inequality will lead to an unfavourable climate for adopting later measures.

B. ADVANTAGES OF THE DEFINITION

Some of the advantages of the alternative concept of integration offered here were already mentioned when their constituent elements were being described. However, these advantages deserve to be explained individually from the viewpoint of the integrationist measures capable of being generated by this concept, since in the final analysis this is the justification for revision of the existing definition.

The fact that the definition lacks a final goal helps to make it more acceptable to the participants in integrationist measures for three fundamental reasons. The first of these is that it is possible to give greater weight to the

¹⁹The notion of mutual benefit has been used by J.S. Nye in his article "Collective Economic Security" in *In-*

ternational Affairs, vol. 50, No. 4, October 1974, pp. 592-594. The list of benefits is taken from Richard N. Cooper, "Worldwide vs. Regional Integration: Is there an Optimal Size of the Integrated Area?" (paper presented at the Fourth World Congress of the International Association of Economists, Budapest, 19-24 August 1974).

measures proposed in view of the benefits they are in a position to generate. This element will be much more important when the processes of integration take place among countries with different levels of development, such as those of Latin America, which is a region characterized by a high degree of heterogeneity among the countries. It also makes it possible for participants who consider themselves to be relatively less developed to make their approval of such measures conditional upon the prior satisfaction of their legitimate claims in regard to the distribution of the benefits which may be generated. This does not mean that each and every one of the measures proposed must generate the same or greater benefits for the relatively less developed participants; what it means is that sufficient common action should be identified to include the interests of all the participants and ensure that the possible losses caused by some may be compensated by the approval of others. In these terms, integration is conceived as a constantly negotiated process, instead of one where the distributive formulas are established once and for all in advance in the manner which appears to be most appropriate for the then prevailing circumstances. The latter approach, in effect, only leads to the creation of integration schemes with rigidities which will later be difficult to overcome, in view of changing circumstances, since it will be almost impossible to reconstruct the basic consensus which make their adoption possible.

Another reason why a process without a final goal makes it possible to identify and promote the adoption and execution of more feasible integrationist measures is that joint efforts are in a better position to adapt to the development needs of each one of the participants. This is what is sought in the concept of integration as a supplement to national development efforts. Thus conceived, integration will not be focussed almost exclusively on the elimination of trade barriers but will be directed more towards attaining the benefits mentioned —economies of scale, indirect benefits and reduction of the external vulnerability of

the participants— in the directly productive sectors and in the infrastructure. In this way, the process will become more flexible, given the greater coverage possible through this concept, and it will thus be able to adapt itself to the changing objectives of the economic policy of the participants.

Finally, the absence of supranationality which will characterize the integrationist measures (since they do not pursue the construction of a greater unit) is another important advantage of this definition; this is true especially in the case of integration processes among developing countries. It is well known, for example, that the economic development process goes hand in hand with the simultaneous creation of a process of national affirmation, tending towards the establishment of the nation-State. And although this relationship between the two processes is not mechanical or automatic, integrationist measures defined exclusively from the point of view of their economic benefits frequently become contradictory to the national claims of the participants. For this reason, they are frequently not adopted because of the political sacrifices their implementation would require. It is thus preferable to recognize this fact from the beginning rather than run the risk that the economic benefits which may be generated by a given integrationist measure might be counterproductive because of the political sacrifices they require. In these terms, too, integration may be conceived as a supplement to national efforts rather than a substitute for them. An integrationist measure whose benefits can only be obtained by the participants at the expense of their own identity and powers will not be feasible and most probably will not be adopted.

In contrast, an integration process such as the one described here will be free of the understandable apprehension felt by participants when they are faced with the dilemma of conditioning their national development to the creation of a greater unit within which they would practically disappear.

Dialogue on Friedman and Hayek

From the standpoint of the periphery

*Raúl Prebisch**

In all his recent writings, the author has maintained that neoclassical thinking is not only incapable of explaining the structure and operation of capitalism in the periphery, but has a misguiding influence on economic policy decisions. In the present article he reverts to these ideas, formulating them as if they came up in the course of a dialogue carried out with followers of the two leading contemporary mentors of the thinking in question; thus he is able to present his points of view with the fluid simplicity in which strictly academic essays are often lacking.

In his opinion, the root cause of the incapacity of neoclassical thinking to interpret peripheral capitalism lies above all in its failure to take into consideration the economic surplus, which is the hub of this system's basic characteristics. It disregards the structural heterogeneity which possibilites the existence of the surplus; it bypasses the structure and dynamics of power which explain how the surplus is appropriated and shared out; it shuts its eyes to the monetary mechanism of production which allows the surplus to be retained by the upper strata; and it underestimates the waste involved in the ways in which the surplus is currently used.

This shortsighted interpretation of the economic process predisposes neoclassical thinking to propose policy measures which do not succeed in promoting the development of the periphery, which increase and consolidate social inequality and which necessitate the establishment of authoritarian régimes, diametrically at variance with the ideas of democratic liberalism. The necessary transformation of peripheral capitalism, which the author propounds, must preserve the values and institutions of democracy and at the same time ensure vigorous economic development and equitable distribution of its fruits.

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I

The ideas of Milton Friedman

1. *Their broad outlines*

The swing of the ideological pendulum has now brought neoclassicism freshly to the fore, and to Milton Friedman belongs the merit of being its supreme disseminator. For some time past I had been reading his various studies, without, however, finding his arguments and propositions at all convincing, until the appearance of his book *Free to Choose*, written in collaboration with Mrs. Friedman. I felt drawn to read it, since it presumably constituted a complete presentation of the eminent economist's ideas. I carefully perused its pages, prepared to revise my original opinions, but I must confess that what I read still failed to convince me; rather did it strengthen my frankly critical position.

I recognize, however, that the book is admirable for its limpid clarity and persuasive force: and also for its frequent recourse to concrete illustration and example. I fully understand its power of penetration. Milton Friedman indeed offers us straightforward and simple solutions to the disquieting problems of the economic world: let the forces of the economy have free play, get rid of the restrictions with which enterprises and workers distort their operation, do away with tariff protection and the other hindrances to the international division of labour, and we shall see prosperity and distributive justice springing up on every side. No brakes on economic activity, but the growth of the State does need curbing: a constitutional limit to it must be established. And ceilings must also be set to the monetary expansion which has led to chronic and disruptive inflation.

How can one fail to be captivated by the doctrine of an economist who, over and above the merit referred to, has seen his academic distinction crowned with the award of the Nobel Prize, which has likewise been received by Dr. von Hayek, of whom we shall also be speaking?

The Chicago professor has innumerable

adherents: I have met with many of them in our countries and, above all, among the younger generations who are leaving the United States universities, especially the one in which Milton Friedman lectures. And I have often had a chance to talk with some of them, although not all—they are too numerous for that. Moreover, there are some among them who, deeply convinced of an incontrovertible truth, do not deign even to enter into discussion with any who profess different ideas. But there are others, and no small number to be sure, who do find discussion acceptable, prompted perhaps by certain insidious doubts that arise out of their other readings.

With these latter, too, I frequently have the opportunity of maintaining a dialogue; rather ought I to say the privilege, for dialogue with those who have something to say or to ask I always find stimulating, so much so that I felt it should be reflected in these pages. To reproduce it meticulously would be tedious, since the same arguments crop up again and again; I have therefore tried to extract their essential points and expound them with a measure of orderliness which is not always practicable in the animated course of several conversations. In doing so I have thought it fitting not to confine myself to a strictly academic critique, but to adopt the same diffusive tone that characterizes the above-mentioned book by Milton Friedman.

In presenting the main outlines of the dialogue, I hope to reach the many who are anxious to clarify their own thinking in face of the serious world crisis through which we are passing.

Before embarking upon the discussions, I thought I ought to check the correctness of my interpretation of the content of Milton Friedman's essential thinking, which in my opinion could be summarized as follows:

- The free play of market forces, unimpeded by any interference whatsoever in a fully competitive system, leads to the optimum allocation of the factors of production and to the remuneration of these factors in accordance with their contribution to the production process;
- For this to happen, an indispensable requisite is to prevent restrictions on free competition. Restrictions which take the form both of

combinations on the part of enterprises to raise prices and combinations on the part of the labour force to increase wages;

- The State must adopt an absolutely *laissez-faire* policy, although it is recognized that something must be done to alleviate the unhappy lot of those who in the play of competition are left at the bottom of the system. Hence the negative tax (to avoid the term subsidy) proposed by Milton Friedman;

- Lastly, inflation must be curbed by regulating the creation of money and preventing the fiscal deficit from which it stems. Hence too the inescapable necessity of limiting the growth of public expenditure.

I must warn readers that I have confined myself to considering the foregoing points without going into other issues with which scientific criticism usually deals, such as the nature and behaviour of the economic agents and certain assumptions relating to the operation of the market.

Without depreciating Milton Friedman's proselytizing effort, I contend that there is no question of new ideas, but of intelligent diffusion of the neoclassical thinking formulated during the second half of the nineteenth century. As far as I myself am concerned, I confess that I too drew sustenance from that doctrine, and taught it as a young university professor in the 1920s. In those days I even translated a little book in Italian by a brilliant disciple of Vilfredo Pareto, which contained a lucid exposition of the theory of general equilibrium.¹

Well, everything is to be found in those neoclassical texts, including the idea of a subsidy for the poor, and also the proposal to limit the creation of money in circulation which derives from the old and much-debated quantitative theory of money.

In reality, one cannot but be surprised at the dogmatic persistence of certain ideas, such as these in defence of capitalism, as well as others of an opposite tendency which also emerged in the second half of the last century. This intellectual stagnation, at least as regards

¹I refer to Enrico Barone and his book *Principios de economía*.

development, seems very odd indeed in comparison with the impressive evolution of the other scientific disciplines. What has happened?

I have not the slightest doubt that what lies behind this ideological pertinacity is the sometimes formidable pressure of certain interests. I do not mean that the original ideas underlying the major theories of neoclassicism stemmed from such interests, nor that this accounts for the dogmatic stubbornness of some of their adherents today. In their time the neoclassical theories signified a great stride forward in the scientific area, above all by virtue of their precision and their mathematical elegance; but their perpetuation is largely due to the interplay of interests.

Thus, the theory of the international division of labour, which CEPAL began to criticize in its earliest publications thirty years ago, was entirely responsive to the interests of the great centres and of the upper strata in the Latin American periphery. It seems astonishing that the aim now should be to return to it and, as regards development, put back the clock. Similarly, the play of interests explains the fervour with which certain social groups in our countries cling to Milton Friedman's doctrine, inasmuch as it repudiates the disturbing action of trade-union movements. What is more, in the name of the freedom of the market the doors are opened to the transnational corporations, which are not exactly the most genuine expression of free competition.

This is why the propagation of neoclassicism has at the present moment the impressive backing of the United States television, which, with great skill in driving home its message, broadcasts far and wide over Latin America certain ideologies whose dissemination is not usually inspired by an authentically scientific purpose.

After these initial remarks, we will now embark upon the dialogue. I shall refer to the lack of congruity between the neoclassical theories and the realities of the periphery. As regards their significance in the centres, devastating criticisms exist, and this is not the place to dwell on them. We will first discuss Milton Friedman and then Dr. von Hayek. They could have been taken together, since

there is so much that is coincident in their writings, but I prefer to devote special attention to the latter towards the end of the present article, where I examine in particular his conception of the State and liberty.

2. Market laws

First and foremost I want to refer to a passage which condenses Milton Friedman's ideas on the virtues of the market. It draws its inspiration from the work of Adam Smith, the well-spring of neoclassical thinking. Our authors say:

"Adam Smith's flash of genius was his recognition that the prices that emerged from voluntary transactions between buyers and sellers—for short, in a free market—could co-ordinate the activity of millions of people, each seeking his own interest, in such a way as to make everyone better off. It was a startling idea then, and it remains one today, that economic order can emerge as the unintended consequence of the actions of many people, each seeking his own interest.

"The price system works so well, so efficiently, that we are not aware of it most of the time. We never realize how well it functions until it is prevented from functioning, and even then we seldom recognize the source of the trouble".²

Later they add:

"Prices perform three functions in organizing economic activity: first, they transmit information; second, they provide an incentive to adopt those methods of production that are least costly and thereby use available resources for the most highly valued purposes; third, they determine who gets how much of the product—the distribution of income. These three functions are closely interrelated".³

And on income distribution they make the following comment:

"There has been an attempt to separate this function of the price system—distributing income—from its other functions—transmitting information and providing incentives.

²Milton and Rose Friedman, *Free to Choose. A Personal Statement*, Harcourt Brace Jovanovich, New York and London, 1980, pp. 13-14.

³*Ibid.*, p. 14.

Much government activity during recent decades in the United States and other countries that rely predominantly on the market has been directed at altering the distribution of income generated by the market in order to produce a different and more equal distribution of income. There is a strong current of opinion pressing for still further steps in this direction".⁴

The perusal of these pages is the starting-point of our dialogue. And in the give-and-take of this dialogue a question that almost always arises is the following:

— *Why do you object to these ideas which Milton Friedman presents so clearly?*

— Before putting forward my objections, let me ask you a question so as to be sure of understanding your interpretation. What do you think is the *modus operandi* of Adam Smith's 'invisible hand', whereby the economic interest of individuals leads the way to solutions which benefit the entire community?

— *To us it is obvious. The individual entrepreneur, impelled by the profit incentive, introduces technical innovations which step up productivity and reduce costs. This has two consequences: in the first place, it induces him to increase production so as to make larger profits; and secondly, in a régime of free competition, other entrepreneurs take pains to do the same. In this way production expands, with the concomitant fall in prices. In other words, to adopt the terms you use in your studies, the fruits of technical progress are transferred to the consumers. And the tendency is to reach a position of equilibrium in which profits disappear, and all that remains is the entrepreneurs' remuneration for the work they do and the risk they have run. In our opinion, this argument is incontrovertible. Don't you think so?*

— Undoubtedly it is from the standpoint of individual enterprises. But let us look at the matter from the angle of the dynamics of overall growth. Would you be prepared to do so?

— *Of course. The whole is the sum of the parts, and if this is so, why should not the tendency to equilibrium be evinced likewise?*

— I think we have come to a very important

point. According to you this tendency is manifested in an increase in supply which brings down prices until they are equal to costs. But the increase in supply is not instantaneous. The production process takes a certain time, from the stage of producing raw material up to the appearance of the finished good on the market. During this process, the purpose of which is to produce future goods, enterprises pay out to the labour force higher incomes than those paid out before, and these constitute the cost of the supply of today's goods. Is that so?

— *Agreed, although that is a highly simplified argument.*

— Very well. I could make it more complicated, if you wish, albeit I do not think it necessary. I will go on. From these incomes that the entrepreneurs pay out in the course of the production process stems consumer demand. In the case of a single enterprise, this demand is spread out thinly over the whole breadth of the market; and it has only a negligible bearing on the final goods produced by the enterprise under consideration. Accordingly, there is no reason why it should affect the tendency towards equilibrium which you postulate. But when, on the other hand, account is taken of the overall growth which characterizes development, it is a different matter.

— *Why should it be different if we are dealing with the sum of the parts, that is, the whole body of enterprises?*

— For a very simple reason. When the whole body of enterprises is concerned, the rise in the incomes that stem from the expanding production in process increases the global demand which extends to all goods, although in widely varying degrees. But obviously the goods in question are not those still in the making, i.e., tomorrow's goods which in due course will result from the production in process, but those which form today's supply. The demand of which we are speaking derives from incomes which, as I have just said, are higher than those contained in the cost of the goods in which the present supply consists.

It is this greater demand that allows the fruits of the productivity increment to be absorbed without a fall in prices.

Bear it in mind that this increased demand finds expression through the creation of money

⁴*Ibid.*, p. 23.

by the bank system, and when the supply of final goods comes on to the market, the enterprises recover not only the money they paid out previously to obtain that supply, but also the additional money with which they pay out the incomes corresponding to the current expansion of the production in process. Accordingly, this additional money reverts to the enterprises in the form of profits, and thus they can appropriate the fruits of increasing productivity.

I would ask you to reflect that we are considering a dynamic phenomenon, a phenomenon of expanding production, which would not occur in a static situation.

— *If we have understood you aright, in this dynamic phenomenon great importance attaches to the expansion of income and demand, with the consequent monetary expansion.*

— Yes, indeed, otherwise price levels could not be maintained. You wouldn't find such an explanation in neoclassical theories. In these theories the phenomenon in question is attributed to market imperfections. Therefore, if prices do not fall in spite of the increase in productivity, the reason is that they are prevented from doing so by monopolistic or oligopolistic combinations on the part of enterprises.

Neoclassical theory does not take into consideration the monetary expansion which accompanies the growth of the production in process. If there were no such expansion, prices would fall as productivity improved. And if they were prevented from falling by the enterprises' combinations, there would be less demand for other goods, and the price decline would exceed the productivity increment; in other words, prices would drop below the cost of production, which would be an untenable position. Believe me, there can be no explanation of this phenomenon if the expansion of income and money in a dynamic situation is disregarded.

However, this neoclassical reasoning, notwithstanding the flaw I have mentioned, has had the merit of making some adherents of neoclassicism in the periphery acknowledge the existence of great disparities in income distribution. Until not long ago they expected that

these disparities would gradually be corrected. Now they recognize that this has not happened, and agree that they do exist, as was pointed out to me by Norberto González.⁵ That is a step forward!

All this constitutes one of the major issues discussed in my latest book.⁶ I hope that the present very succinct explanation of the phenomenon concerned may have enabled you to appreciate its significance.

— *We find your explanations interesting, and should like to think them over thoroughly. You maintain that the growth of demand in the course of the production in process makes it possible to absorb the supply of final goods without a fall in prices by virtue of the productivity increment. And that enterprises are thus enabled to garner the fruits of productivity in the shape of profits. But this does not preclude the system's tending towards equilibrium, with the consequent elimination of profits in accordance with neoclassical reasoning. Equilibrium might be reached in another way that you have not considered.*

— I am still very far from having considered all the variables. But what would be this other way of reaching equilibrium in the system?

— *You have referred to prices but not to the wages of the labour force. Let us suppose that prices do not fall. But the incentive of larger profits induces enterprises to expand production, for which purpose they need to increase employment. Enterprises thus compete with one another to recruit this additional manpower. And this competition has the virtue of raising wages at the expense of profits. Hence there is a tendency towards equilibrium. Consequently, if it may correctly be asserted that profits do not disappear because prices decline, they will be wiped out in the end by virtue of the increase in remunerations, including the remuneration of entrepreneurs.*

— The argument you put before me is not without its logic. But in real-life conditions in the periphery this is not how things happen. The neoclassical theories take no note of the

⁵Deputy Executive Secretary of CEPAL.

⁶*Capitalismo periférico. Crisis y transformación*, Mexico, Fondo de Cultura Económica, 1981.

social structure of the periphery and the continual changes it undergoes. It is a heterogeneous social structure in which great disparities in productivity are found; while, on the one hand, part of the labour force is employed in jobs using high-productivity techniques, on the other hand there are masses of human beings working at very low levels of productivity. And between the two extremes stretches a wide range of varying techniques and productivities. This structural heterogeneity is of considerable importance, since the labour force which in the dynamics of development is gradually absorbed at high levels of productivity, thanks to capital accumulation, does not improve its income correlatively with that productivity in the free play of market forces. It is prevented from doing so by competition on the part of the broad masses of workers from the lower social strata who are left behind in the lower-productivity layers of technology. A regressive competition takes place which makes it impossible to improve remunerations commensurately with the system's rising productivity. Do you understand this structural phenomenon?

— *We think we understand it, but it does not altogether convince us, for it seems to us that this maladjustment between productivity and wages is a temporary phenomenon which will also tend to disappear. In other words, the system's tendency towards equilibrium will take longer to operate, but will end by gaining the day.*

— Well, I realize that your faith in the neoclassical theory of equilibrium is unassailable. Possibly you trust that a steady increase in capital accumulation will mean that more and more workers are absorbed, at higher and higher rates of pay, owing to the productivity increment, and that all this will come about at the expense of the enterprises' profits. In this way the system will approach its position of equilibrium. It would then be a matter of time...

— *Exactly. Such, in our opinion, is the tendency of the system if it is undisturbed by any form of interference, that is, if the economic system functions unhampered, if market forces operate freely. Therein lies the great significance of neoclassical reasoning. Can you deny it?*

— That would be the case if the dynamics of

the system worked out as you think. But unfortunately this is not what happens. Unfortunately, I say, because if it were to happen, the major problems with which we are faced could be spontaneously resolved. And I should become a Friedmanite!

— *We will continue to follow what you say with close attention, so as to understand so downright a statement.*

3. *The dynamics of the economic surplus*

— Well, at this stage in our dialogue I shall introduce the concept of the economic surplus. As a first approximation, which will suffice for the time being, we may assume that the surplus is identifiable with the profits of enterprises. I refer you to my book if you are interested in this point, and will concentrate for now on the economic surplus, which is of profound dynamic significance.

Keep the concept well in mind. The surplus represents that part of successive productivity increments which is not transferred to the labour force because of the heterogeneity of the social structure and because of the regressive competition mentioned above. The owners of the enterprises' means of production appropriate the surplus and retain it thanks to the continuous expansion of demand. The surplus represents a combination of a structural phenomenon and a dynamic phenomenon.

— *I am afraid you are deflecting us from our line of argument. Giving profits a change of name and talking of the surplus does not mean that this latter will not tend to decrease until it disappears as the result of active competition among enterprises.*

— Please have patience with me. Given the nature of the system, the economic surplus must continually increase. That is a dynamic requirement of the system; and it is so because the surplus—and everything pertaining to it—is the source of a major proportion of the enterprises' reproductive capital accumulation. If the system is to develop and employment and productivity are to increase, ceaseless growth of the surplus is indispensable.

The surplus serves, however, not only for accumulation but also for consumption. The fact is that much of it is increasingly allocated to

the privileged consumption of the upper strata of the social structure in whose hands most of the means of production are concentrated. And this is detrimental to the intensity of accumulation. The same thing happens in the case of the excessive siphoning-off of peripheral income by the centres. And this insufficient accumulation has a weakening effect on the absorption of the lower strata; that is, it brings in its train the exclusive tendency of the system.

— *But what you have just said does not necessarily occur. Suppose the surplus were used intensively for accumulation purposes, as well as the income siphoned-off by the centres. In that case, the period of transition towards equilibrium would be much shorter, but equilibrium would be reached in any event.*

— Don't think I am just being obstinate, but this is now how things turn out. To prove it, let me revert to the surplus.

I was speaking earlier of the dynamic necessity of continually increasing the surplus. It increases thanks to constant productivity increments. Now, as the labour force acquires more and more spontaneous ability to share in the fruits of productivity, the growth rate of the surplus and therefore of reproductive capital accumulation is adversely affected.

Thus, let us assume that a time comes when improvements in wages absorb the whole of the productivity increment. But the global surplus would then have attained its highest level. And in accordance with the line of reasoning you have been following, competition among enterprises in order to obtain more and more labour to expand production would compel them to raise wages progressively until in the end the surplus disappeared. The substantiation of neoclassical reasoning would in this way lead to a sort of euthanasia of the surplus.

— *Which shows that the neoclassical postulate of equilibrium is correct, as we were saying.*

— It would be correct if this was indeed the way in which things worked out. But matters follow a very different course. Remember that the surplus is the wellspring of capital accumulation. And if it is gradually reduced by the growing competition among enterprises to obtain additional labour, capital accumulation

will increasingly suffer. The consequences would be very serious, since employment and production would decline, and an economic contraction would supervene.

— *Be it so. But therein might lie the solution of the problem. Contraction and unemployment would bring down wages, which had increased inordinately, to the detriment of accumulation. And this adjustment, however distressful for the time being, has the merit of reducing wages until the surplus is re-established, its dynamics is restored and, therefore, the growth of accumulation and employment is renewed.*

— Well and good. But think what you are arguing. If a contraction is necessary in order to allow the surplus to start growing again, that means that the tendency towards equilibrium which you assume does not in fact operate. It does not operate, because the surplus increases again thanks to the fall in wages. To reach equilibrium it would be essential for the surplus to be wiped out.

— *Allow us a moment's reflection. The fact that the surplus decreases does not necessarily mean that accumulation stops growing. Other patterns are possible; for example, as accumulation on the part of those who appropriated the surplus weakens, it may be the labour force itself that accumulates capital as wages rise. So the dynamics of the system would function without interruption.*

— Agreed. But there is nothing in the spontaneous play of the system which leads the labour force to accumulate instead of the upper strata. In reality it would have to accumulate more in order to correct the exclusive tendency of the system. But this is not how the system works. Do you suppose that enterprises would look on unmoved at the spectacle of their returns falling while wages rose? And assuming that they did so, what would happen if the labour force increased its own consumption instead of accumulating?

— *Obviously the dynamics of the system could not continue to operate. But in that case, the responsibility would have to be laid not on the privileged consumption of the upper strata, but on the consumption of the labour force.*

— That is not the point at issue. It is not a

question of responsibilities, but of the way in which the system functions. The system does not bring about its own transformation. It is what it is...

— *We find so sweeping an assertion disconcerting; we should like you to explain your ideas to us more fully.*

— Once again I assert that the system can function regularly only while the heterogeneity of the social structure, the great disparities in productivity, permit the ceaseless growth of the surplus. If capital accumulation were highly intensive and great dynamism characterized the absorption of the labour force, a time would come when the surplus began to decrease because of competition among enterprises. And then the aforesaid fundamental dynamic requirement would not be fulfilled and contraction would supervene. Which means that the dynamics of the system is founded on social inequality and that this cannot be remedied beyond a certain point.

— *Yet this crisis of the system would appear to occur when reproductive capital accumulation is very vigorous. If it were not, the absorption of labour would necessarily be less intensive, and then the crisis would be warded off.*

— Undoubtedly, the crisis would be warded off if another very important factor did not intervene. But if this were the case, you had better forget about the tendency of the system to reach a position of equilibrium in which the incomes of the factors correspond to their contribution to the production process. Do you acknowledge this?

— *We should like to give thorough consideration to what you have said before expressing an opinion. In the meantime, to what other factor are you referring?*

4. Trade-union power and the crisis of the system

— I am about to explain it. The labour force does not wait until, in the course of time, perhaps a very long time, its redistributive power with respect to the surplus is spontaneously strengthened. The changes in the social structure which occur in the course of development are accompanied by the growth of the

trade-union and political power of the labour force. It is a power that increasingly counterpoises the power of the owners of the means of production to appropriate the surplus. Thus, while it is true that wages do not spontaneously improve correlatively with the productivity increment, owing to the insufficiency of capital accumulation, the improvement in question is secured thanks to the trade-union and political power of the labour force, in so far as the democratization process develops unhampered in the course of the aforesaid structural changes.

— *But in that case it would be the evolution of trade-union and political power which would end, in our opinion, by driving the system to its crisis. Milton Friedman would then be perfectly right in impugning trade-union power. Could you read us the relevant paragraphs?*

— Here they are. This is what they say:

“Unions of highly skilled workers have unquestionably been able to raise the wages of their members; however, people who would in any event be highly paid are in a favourable position to form strong unions. Moreover, the ability of unions to raise the wages of some workers does not mean that universal unionism could raise the wages of all workers. On the contrary, and this is a fundamental source of misunderstanding, *the gains that strong unions win for their members are primarily at the expense of other workers.* (Italicized in the original text.)

“The key to understanding the situation is the most elementary principle of economics: the law of demand —the higher the price of anything, the less of it people will be willing to buy...

“A successful union reduces the number of jobs available of the kind it controls. As a result, some people who would like to get such jobs at the union wage cannot do so. They are forced to look elsewhere. A greater supply of workers for other jobs drives down the wages paid for those jobs. Universal unionization would not alter the situation. It could mean higher wages for the persons who get jobs, along with more unemployment for others. More likely, it would mean strong unions and weak unions, with members of the strong unions getting higher

wages, as they do now, at the expense of members of weak unions.”⁷

— As you see, Milton Friedman, like other neoclassicists, abominates trade-union power. He considers it to be an arbitrary power. He takes no account whatever of the arbitrariness of the appropriation of the surplus. In view of this power of appropriation, the labour force resorts to its own redistributive power to secure an ever-larger share in the fruits of the system’s increasing productivity. First those that are best organized, as Milton Friedman says, and afterwards the less well organized, availing themselves of their political power.

Milton Friedman condemns trade-union power because, in his opinion, it implies a violation of market laws. He would be right if these laws, in a régime of free competition, were to spread the fruits of increasing productivity. But I have explained that this does not happen: the fruits in question are retained in the guise of the surplus and, in order to share in them, the labour force resorts to its trade-union and political power. What is involved, therefore, is a conflict of powers.

— *This conflict of powers, however, according to your own writings, leads to the social inflation which has increasingly disturbing effects on the system.*

— That is so. I have tried to demonstrate in my theoretical arguments that this happens even if unrestricted competition reigns, and even if State expenditure is marked by the moderation that Milton Friedman recommends.

— *But moderation is hardly a characteristic of the State, and Milton Friedman maintains that this is a primary factor of inflation. I believe you yourself recognize it.*

— I have recognized it for a long time past. The State’s responsibility for inflation is heavy, not only when it incurs a chronic deficit, but when it covers all its expenditure with taxation. When expenditure is excessive, as generally happens, taxes tend to become inflationary. This does not occur in those phases of development in which the labour force is still lacking in trade-union and political power. But once it acquires this power, it tries to recoup itself for

the taxes and other burdens that fall on its shoulders. And it does so by pushing up its wages and at the expense of the growth of the economic surplus. So two elements are combined in the system’s march towards crisis: the genuine endeavour of the labour force to improve its situation, and its efforts to recoup itself for the taxes and charges that erode its income. You should take it into consideration that there are also taxes and charges which bear directly upon the surplus and whose effects intensify the process I have just explained.

— *We think we are beginning to understand you. According to what you are saying, a twofold pressure is exerted on the surplus: that of the labour force and that of the State through the labour force. And this twofold pressure tends to make for a crisis through its adverse effects on capital accumulation, employment and the global product.*

— I am glad to hear you say this... The pressure is not twofold, however, but threefold. Don’t forget the internal pressure on the surplus: the pressure of privileged consumption. If those who appropriate the surplus practised austerity and used their accumulation potential to the utmost, we might talk of twofold pressure. But peripheral capitalism is not characterized by austerity. And the crisis is reached precisely when this threefold pressure prevents the continued growth of accumulation.

— *There is an aspect of the question which is still not clear to us, and which we would ask you to explain. Why does inflation necessarily occur?*

— Simply because when the surplus decreases not only is the profitability of enterprises weakened, but at the same time capital accumulation suffers, the rate of absorption of the labour force slows down and unemployment and a contraction in economic activity supervene. You will realize that so precarious a situation cannot last very long. And the only way out for the enterprises is to raise prices so as to re-establish the dynamics of the surplus, with the consequent capital accumulation, and when the labour force has sufficient trade-union and political power, the rise in prices is followed by a further wage increase. And so in succession. Thus a continuous and ever-widening inflationary spiral is triggered off.

⁷Milton and Rose Friedman, *op. cit.*, pp. 233 and 234.

— *You describe the spiral as ever-widening. Surely if that is true it is due to the tolerance of the monetary authority. That is why we attach great importance to Milton Friedman's recommendation that a strict limit be fixed to the creation of money.*

— Take care! You are treading on very thin ice. In face of the phenomena we are discussing, which are different from those of the past, monetary policy proves not only incapable of containing the inflationary spiral, but also counterproductive. Let me explain why I make so categorical an assertion.

Remember what I said on the expansion of the production in process and of the need to create money in order to pay out the steadily increasing incomes which it entails. Now, if the monetary authority refuses to enlarge the flow of money needed by the enterprises to pay these higher wages, what will the enterprises do in face of trade-union pressure? They cannot help but use part of that flow of money to meet wage increases. And in proceeding thus they must necessarily reduce the amount of money that they ought to have earmarked for the expansion of production. So the rate of production in process slackens or contracts —according to the degree of intensity of the monetary restriction. This is a phenomenon that used not occur before: namely, higher wages and prices on the one hand, and on the other hand a contraction of production and employment. Do you follow me?

— *Your reasoning is clear; but we must take a look at what happens afterwards. Don't you think that in the end unemployment will undermine trade-union and political power, bring down wages and ultimately contain the rise in prices, thus doing away with the spiral?*

— Unless trade-union and political power is repressed by the State I do not think that what you say will happen. But let us assume for a moment that it does; let us suppose the power in question has been dissolved by virtue of the use of force by the State. The monetary authority will then be able to pursue an expansionist policy in order to encourage the recovery of the economy. Unemployment will be remedied and the labour force will renew the struggle to regain former wage levels and later improve upon them. Thus the distribution struggle will

enter upon a new cycle, unless trade-union and political repression continues.

Can the devotees of Milton Friedman go on talking, then, of political liberty and the regulatory efficiency of the market through economic liberty?

— *Are you impugning the market as well?*

— Not at all. A sharp distinction needs to be drawn between the market and the regulatory virtue attributed to it. A close look must be taken at the social structure that lies behind the market, the changes that occur in it, and the play of power relations which is the outcome of all this. The market in itself is an efficacious mechanism, and has great political significance. But we must not expect of the market what it simply cannot give.

As I have already explained, the heterogeneity of the social structure enables the upper strata, chiefly, to appropriate the economic surplus as the production technology of the centres penetrates into the periphery. And since they do not use it as fully as possible for reproductive capital accumulation, in view of their privileged consumption, insufficient accumulation makes it impossible for the lower strata that are relegated to the bottom of the social structure to be absorbed at rising levels of productivity, a state of affairs which is aggravated by the population explosion. In the same connexion I have mentioned the siphoning-off of income by the centres. None of these deficiencies can be spontaneously corrected by the market.

—*You also frequently allude to the hypertrophy of the State that militates against accumulation, a point on which there would seem to be some coincidence of views with Milton Friedman.*

— With a great difference, however. For this hypertrophy is largely due to the dynamic flaws in the system, to its insufficient labour-absorbent capacity and to the arbitrary appropriation of the fruits of technical progress. The State performs a labour-absorbent function, especially in the middle strata. But it performs it badly, because what is involved is partly a spurious absorption of manpower which is really not needed. Moreover, the various social services provided by the State are justified largely by the system's great distribu-

tive disparities. But this is not all. The State is also a reflection of changing power relations, not excluding, of course, the influence of military power on its expenditure. And, furthermore, it is very far from efficient in its operation. Rather than State hypertrophy, we ought to speak of State obesity, which prevents it from fulfilling its functions with briskness and efficiency.

5. *The allocation of resources*

— *Your were saying that the market is in itself an efficacious mechanism. Do you recognize this efficacy with respect to the allocation of productive resources?*

— I would recognize it if the problem of accumulation and that of the great structural disparities in income distribution, which must be distinguished from functional disparities, were resolved outside the market—I stress the words 'outside the market'. The allocation of resources would then be correct, but even so it must be borne in mind that the market inherently lacks not only a social horizon, but also an extensive time horizon, and it must be guided with foresight. This lack of foresight implicit in the play of market laws we are witnessing now in certain dramatic manifestations of the ambivalence of technology. I am referring to the irresponsible exploitation of non-renewable natural resources and to environmental deterioration. Do you think that in this case market laws have led to rational allocation of the factors of production?

— *Of course not; that would be to ignore the evidence of facts itself. But there can be no doubt that the market makes it possible to correct these flaws through the price system, as Milton Friedman has also pointed out.*

— I acknowledge that the price system offers a good solution, always provided that certain essential measures are deliberately adopted. Unquestionably, the rise in petroleum prices will help to restrict consumption and encourage production. But did the market mechanism by any chance make prices rise spontaneously? For several decades the real price of petroleum followed a steady downward trend, although this was a resource approaching exhaustion. How do you account for this serious defect in

the allocation of resources through the play of market laws?

— *The explanation seems very straightforward. Market laws have not operated freely, since competition has been very seriously restricted. A few companies have dominated the market and have fixed unduly low prices.*

— What you say of the serious restrictions on competition is very true. But do you think that if there had been many fully competitive enterprises—as Adam Smith assumed—that would have caused prices to rise? The oil companies' own interests would have led them to expand production in order to increase their profits; subsequently, competition among them would have caused a price decline at the expense of their profit margins. So that consumption would have increased even more intensively, to the detriment of different sources of energy and with other highly regrettable consequences. Moreover, the producer countries had no power to protect the petroleum that was being squandered.

— *But you do recognize that the rise in prices will have the merit of reducing the rate of consumption, on the one hand, and, on the other hand, encouraging the development of other forms of energy.*

— I recognize it fully. But take it into account that we are not speaking of prices spontaneously established by the operation of the market, but of deliberately determined prices which the producer countries have found themselves compelled to adopt as a counter-measure to the serious situation that had been reached.

Nor did the market show foresight with respect to the deterioration of the environment. The State has had to do what the play of market laws could not. It has had to impose restrictive measures which imply price increases, either because of the larger amount of capital required to prevent pollution, or owing to taxes of which the burden falls on prices. The problem now lies in the need for the social cost of all this to be equitably distributed.

— *The material discussed will give us much food for thought before we can form a definitive opinion. In any case, we should like to maintain this same dialogue with respect to*

the leaders of neoclassical theory. But you have spoken to us only of Milton Friedman, bypassing so eminent and forceful a neoclassicist as Friedrich von Hayek.

II

The ideas of Friedrich von Hayek

1. *Their broad outlines*

— I was keeping in reserve the consideration of some of his ideas. I think the time has now come to discuss them, although later I shall invite you to revert to Professor Friedman.

I have always followed with interest the prolific writings of Friedrich von Hayek, but on this occasion I shall refer only to a recent article entitled "The democratic ideal and the containment of power",⁸ since it represents a good summary of his political ideas, especially his defence of the liberal State in the original sense of the term, and of the principle of personal liberty which is inherent in it.

As in the case of Milton Friedman's thinking, before embarking upon a dialogue, I should like us to reach an understanding as to the essential ideas of Von Hayek.

First and foremost, it seems to me that underlying these ideas, as in the preceding instance, is the fundamental concept of neoclassical theory. Remember that, according to this concept, when a régime of free competition is in full force, the incomes of individuals tend to be equated with their respective contributions to the production process. Such is the ethic underlying neoclassical reasoning. An ethic which is certainly very far from being put into practice in real life.

Given this concept, any restriction of free competition is arbitrary, because it violates the principle of distributive justice, if I may be allowed to use my own terminology. Arbitrary,

too, any State intervention that transfers income from some social groups to others, likewise violating market laws. Nothing whatever must be allowed to interfere with the market's role as supreme regulator of the economy.

As we are apparently in agreement, I will continue with my interpretation, if you have no objections. From what I have just said very important conclusions may be deduced. It is necessary for the Constitution to set limits to the power of the legislative assemblies and also to the power of majorities, in order to avoid the violations aforesaid.

An essentially democratic constitution—in the true meaning of this concept—lays down essential human rights as sacrosanct, and if a legislative majority does not respect them, it lapses into arbitrariness, into the most flagrant violation of the Constitution.

Von Hayek defines arbitrariness as follows: "Arbitrary means... action determined by a particular will unrestrained by a general rule—irrespective of whether this will is the will of one or a majority. It is, therefore, not the agreement of a majority on a particular action, nor even its conformity with a constitution, but only the willingness of a representative body to commit itself to the universal application of a rule which requires the particular action, that can be regarded as evidence that its members regard as just what they decide".⁹

The same thing happens when a majority interferes with market laws. It would be a form of arbitrary action inconsistent with the principles hallowed by the Constitution.

— *Since you have von Hayek's article by you, will you please read us the relevant para-*

⁸"El ideal democrático y la contención del poder", in *Libertad y Leviatán, Estudios Públicos*, No. 1, Santiago, Chile, Centro de Estudios Públicos, December 1980. This article is based on Friedrich von Hayek, *Law, Legislation and Liberty*, Vol. 3, *The Political Order of a Free People*, University of Chicago Press, 1979. Page numbers for quotations therefore refer to the original English text.

⁹Friedrich von Hayek, *op. cit.*, p. 8.

graphs? What is the source of the Constitution? Who approves it?

— The Constitution is the expression of a collective consensus, or, in the words of von Hayek, it is on “the consent of the people on which all power and the coherence of the State rest. If that consent approves only of the laying down and enforcement of general rules of just conduct, and nobody is given power to coerce except for the enforcement of these rules (or temporarily during a violent disruption of order by some cataclysm), even the highest constituted power may be limited. Indeed, the claim of Parliament to sovereignty at first meant only that it recognized no other will above it; it only gradually came to mean that it could do whatever it liked—which does not necessarily follow from the first, because the consent on which the unity of the State and therefore the power of any of its organs are founded may only restrain power but not confer positive power to act.

“It is allegiance which creates power and the power thus created extends only so far as it has been extended by the consent of the people. It was because this was forgotten that the sovereignty of law became the same thing as the sovereignty of Parliament. And while the conception of the rule (reign, sovereignty or supremacy) of law presupposes a concept of law defined by the attributes of the rules, not by their source, *today legislatures are no longer so called because they make the laws, but laws are so called because they emanate from legislatures*, whatever the form or content of their resolutions.”¹⁰

Thus it is not a higher ‘will’ that limits power—von Hayek insists—but rather the consent of the people.

That consent, on which the Constitution is based, has to limit the power of the legislative assemblies *vis-à-vis* the laws of the market. Thus, “all pressure on government to make it use its coercive powers to benefit particular groups is harmful to the generality”.

Let us see what these pressures consist of, especially, the pressure that can be exerted by large firms or corporations.

This pressure, however, is not comparable to the pressure of organized labour groups “which in most countries have been authorized by law or jurisdiction to use coercion to gain support for their policies. By conferring, for supposedly ‘social reasons’, on the trade unions unique privileges, which hardly government itself enjoys, organizations of workers have been enabled to exploit other workers by altogether depriving them of the opportunity of good employment. Though this fact is conventionally still ignored, the chief power of the trade unions rests today entirely on their being allowed to use power to prevent other workers from doing work they would wish to do”.¹¹

But it is not only a question of restrictions on competition authorized by the legislative assemblies. There is also direct government interference with the distribution of income. On this subject, the distinguished professor says the following:

“So long as it is legitimate for government to use force to effect a redistribution of material benefits—and this is the heart of socialism—there can be no curb on the rapacious instincts of all groups who want more for themselves. Once politics becomes a tug-of-war for shares in the income pie, decent government is impossible. This requires that all use of coercion to assure a certain income to particular groups (beyond a flat minimum for all who cannot earn more in the market) be outlawed as immoral and strictly anti-social”.¹²

And further on he adds: “...once we give licence to the politicians to interfere in the spontaneous order of the market for the benefit of particular groups, they cannot deny such concessions to any group on which their support depends”, which leads to “an ever-growing domination over the economic process by politics”.¹³

And, again: “[giving] general licence to politicians to grant special benefits to those whose support they need still must destroy that self-forming order of the market which serves the general good, and replace it by a forcibly

¹⁰*Ibid.*, pp. 3-4. (Italics in the original text.)

¹¹*Ibid.*, p. 144.

¹²*Ibid.*, p. 150.

¹³*Ibid.*, p. 151.

imposed order determined by some arbitrary human wills".¹⁴

From all this we may draw a definitive and emphatic conclusion: "In its present unlimited form, democracy has today largely lost the capacity of serving as a protection against arbitrary power. It has ceased to be a safeguard of personal liberty, a restraint on the abuse of governmental power which it was hoped it would prove to be when it was naively believed that, when all power was made subject to democratic control, all the other restraints on governmental power could be dispensed with. It has, on the contrary, become the main cause of a progressive and accelerating increase of the power and weight of the administrative machine".¹⁵

All this leads to the progressive disintegration of the system and to "resort in despair to some type of dictatorial régime".¹⁶

2. The arbitrariness of the surplus and the arbitrariness of redistribution

— I will stop at this point to ask you: What do you think of all this?

— *We think Friedrich von Hayek's ideas are very logical, provided one starts from the premise you mentioned at the beginning, namely, the supreme regulatory role of the laws of the market. As we have just seen, if those laws are violated, the inevitable result is government by force. It is interesting to note that although you do not accept that premise concerning the laws of the market in your critique of peripheral capitalism, you arrive at a similar political conclusion. Are we right?*

— We will comment on the last point later. With regard to your first remark, your interpretation is correct. If we admit the validity of that premise, everything else falls into place. The problem is that that premise has absolutely no validity, however, as I will try to show when I refer to Friedman's thinking.

It is worthwhile stressing this, as it is very important. Both authors hold that it is arbitrary to interfere with the laws of the market. But

they refuse to recognize the existence of the economic surplus and the fact of its appropriation, particularly by those who have concentrated in their hands most of the means of production. In the light of neoclassical reasoning, both this appropriation and the fact that the surplus does not tend to be eliminated by the play of competition would be arbitrary.

According to this interpretation of mine, the arbitrariness does not lie in the departures from the system, in the violation of the laws of the market, but rather is intrinsic in the system itself, in a system whose dynamics depend fundamentally on the need for the surplus to grow constantly instead of on that euthanasia which would occur if neoclassical reasoning were carried to its conclusion.

— *How do you explain the fact that this phenomenon is not taken into account?*

— In my long life I have seen brilliant men hold stubbornly to certain dogmas. I would say that the more brilliant they are, the more stubbornly they hold to their dogmas, and the more extreme their dialectic becomes as they seek to assert the absolute truth they believe they possess. Please do not forget, also, that the so-called science of economics is very new by comparison with other scientific disciplines. But let us get back to the main thread of our discussion.

— *We think that is a very good idea. We said a moment ago that, despite your fundamental differences with Friedrich von Hayek, you reach a similar conclusion when you hold that, if we have understood you correctly, in the advanced stage of the structural changes in the system, there is a tendency towards the dictatorial use of force.*

— That is indeed the case. But please wait a moment before we come to this extremely significant point. I would like to stress a great difference between the reasoning of our neoclassical author and my own, as I stopped being a neoclassicist a long time ago.

According to von Hayek, the disturbances in the system, as regards the distribution of income, are due to the fact that there are social groups that interfere with the play of the laws of the market in order to appropriate for themselves what other groups have obtained in line with their contribution to the productive

¹⁴*Ibid.*, p. 151.

¹⁵*Ibid.*, p. 138.

¹⁶*Ibid.*, p. 152.

process. For me, however, the problem begins earlier, that is to say, when certain social groups appropriate for themselves the fruits of the technical progress that should have been distributed among all according to their productive contribution.

— *If we have understood you correctly, you hold that there are privileged social groups that appropriate for themselves the fruits of the productivity of the system and prevent those fruits from being distributed according to the rationale of the laws of the market that the neoclassical economists assume to exist.*

— Your interpretation could not be more correct. And at the risk of repeating myself, I might say that the arbitrariness of that primary appropriation is followed by the arbitrariness of redistribution in the play of power relations. And since there is no regulating principle whatsoever in this struggle for distribution the system thus moves towards its crisis.

— *We would like you to explain us, however, why this trend towards crisis has not occurred before in the development of peripheral capitalism.*

— I will try to do so. The tendency to move towards crisis is a consequence of the structural changes that occur in the system as the technology of the centres is adopted. There are structural phases in which the redistributive power of the labour force is either non-existent or very weak because the process of democratization—I am talking about genuine, not apparent or manipulated democratization—is only incipient. Well, as this process continues, the labour force acquires the power to share the successive increments of productivity and to compensate itself for taxes and other burdens imposed by a State that is running to fat, for the reasons I have explained. And when this increasingly antagonistic struggle makes it impossible to continue meeting the dynamic requirement that the surplus must grow constantly, this gives rise to the crisis and the inflationary spiral that upsets the system.

3. Apparent analogies and great differences

— *That is exactly what we were saying: you reach a conclusion similar to von Hayek's.*

— Similar, yes, but for a very different reason.

Because for von Hayek the crisis is due in the final analysis to the fact that abuse by the democratic majority has violated the laws of the market. Whereas I hold that the crisis is due to a system that is vitiated from the beginning because it does not allow the laws of the market to play the redistributive role attributed to them.

— *Now we understand. But what would be the consequences of two concepts that, despite their being so different, and so divergent in their significance, would seem to lead inevitably to the same outcome?*

— I will try to answer that very important question. For von Hayek and Friedman, there must be a constitutional limitation to prevent restrictions on competition, whether from combinations of enterprises or from trade unions, and at the same time to prevent arbitrary transfers of income between the social groups. In contrast, I propose a transformation in the system of accumulation and distribution.

— *Before you expand on that, please allow me a slight digression. You have not commented on a statement made by von Hayek (and also by Friedman) to the effect that the trade unions, by arbitrarily setting wages, prevent the employment of other workers.*

— This idea is being widely disseminated nowadays in certain articles written by neoclassicists. According to them, unemployment is to be explained by the artificial increase in wages achieved by the trade unions. These wages should really be as low as is necessary in order to achieve a balance between the supply and demand of labour. Let us suppose that is so. Nevertheless, this reasoning leaves out a very important matter. If wages go down, according to the laws of the market prices would have to go down as well. But I believe I have shown you that prices do not go down, but rather that the surplus goes up. These phenomena cannot be explained without taking into account the social structure.

— *You were referring to certain constitutional limitations which, according to von Hayek, should ensure the free play of the laws of the market. What would those limitations be?*

— First of all, limitations to prevent combinations of enterprises and workers. Then, limita-

tions to prevent State expenditures from going above a certain proportion of the global product, in order to check the arbitrary transfer of income decided upon by the parliamentary majorities. And, finally, a negative tax or subsidy to alleviate the fate of those who have very low incomes, either because of their small contribution to the productive process or for some other morally acceptable reason.

— *These proposals are perfectly understandable in the light of neoclassical principles. But since we are beginning to follow your train of thought, we assume you have objections to them.*

— I most certainly do. We are still leaving out the structural surplus. Please recall what I said before. The fact that prices do not go down as productivity goes up is not due to combinations of enterprises, but rather to the mechanism of appropriation of the surplus that prevents the fruits of productivity obtained through competition from being spread throughout the society. Combinations change the internal distribution of the surplus, but do not affect the amount of surplus there is.

The dissolution of trade-union power, however, would bring about an increase in the rate of growth of the surplus. If this phenomenon were accompanied by a spontaneous process of reduction in prices as long as remunerations were not increased, we would have no objection. But we know very well that the system does not work that way, at all.

It is true that accumulation could increase if the surplus increased this way as a result of the elimination of trade-union power or the limitation of State expenditure. And that could have a positive effect in certain phases of development. But if, on the contrary, the surplus increased in this way was devoted to consumption, what would happen then?

— *That is just what we wanted to say. In order for the limitations advocated by our neoclassical authors to have positive dynamic effects, it would also be necessary to limit privileged consumption. What are your views on this point?*

4. The social use of the surplus

— Now I see that you are on the right track. It is

necessary to limit privileged consumption in order to increase accumulation and stimulate the absorption capacity of the system: this would be the best way to achieve a dynamic distribution of income. But clearly, there would also have to be a certain direct redistribution of income, particularly at the expense of privileged consumption: to use Dr. Friedman's term, a negative tax.

All this, however, cannot be conceived as a series of piecemeal and disconnected measures. They have to be part of a rational concept of the social use of the surplus.

— *We must interrupt you in order to ask a very important question. Will it be necessary to transfer to the State the ownership and management of the means of production in order to achieve the purpose you have just stated?*

— No, absolutely not. This view has quite wrongly been attributed to me. It is the very enterprises from which the surplus comes which should distribute it, through accumulation, redistributive improvements and State expenditure, by compressing that part of the surplus that is devoted to excessive consumption or excessive transfers abroad.

— *Are you proposing that the enterprises should perform this very important role at their own discretion?*

— Not at all. The enterprises would merely be responsible for implementing the social use of the surplus. The decision must come from a broad consensus, a consensus enshrined in the Constitution in order to prevent the enterprises from disposing arbitrarily of the surplus. As you see, my view on the constitutional consensus is based on Friedrich von Hayek's idea: a consensus establishing the general principles that will guide the social use of the surplus. The legislative majorities would have to follow these guidelines in their specific decisions, but they would not be able to change them. Any change would have to be made through a constitutional amendment. I have tried to explain all this in my book, so please do not ask me to go into it in depth now.

— *Very well, but let us mention one point that has great political significance. You speak of a consensus enshrined in the Constitution and say that you are inspired by von Hayek in this.*

5. *Changes in the structure of power*

— There is, of course, a coincidence of views as to the procedure, but not as to the objective. My objective is fundamentally different from that proposed by von Hayek. In order to achieve what this economist wants, it would be necessary to make a regressive change in the structure of power that would clearly be detrimental to the labour force. To provide for the social use of the surplus, on the other hand, it is necessary to make a progressive change in the structure of power that is detrimental to those who appropriate and retain a considerable proportion of the surplus.

— *You speak of a regressive change in the structure of power that is detrimental to workers in the broadest sense. How is this related with your views about the use of force to deal with the crisis of the system?*

— Actually, it amounts to two different ways of saying the same thing. I said before that when the workers have acquired great trade-union and political power, the crisis cannot be solved with a restrictive monetary policy. A rise in prices cannot be avoided, only mitigated at best, and there is a contraction of the economy and unemployment. The force is used to overcome the trade-union and political power of the workers. I call this a regressive change in the structure of power.

— *This would seem to lead to a very serious political outcome. Is there not some alternative to the use of force in order to induce workers to accept the unrestricted rule of the laws of the market?*

— Well, I must say quite frankly that I have reached the conclusion that there is no such alternative. Would you be willing to advise the workers not to use their redistributive power in order to ensure the continued growth of the economic surplus in the hands of the upper strata?

— *Well, we might feel able to give this advice if at the same time a limit was placed on privileged consumption, in order to increase accumulation and improve distribution. What would you say to that?*

— You must bear in mind that this limitation of consumption, in order to be effective, would require the progressive change in the structure

of power which I mentioned before. What happens, however, is that when force is used to solve the crisis of the system, trade-union and political power is suppressed without any measures being taken to limit privileged consumption. On the contrary, trade-union and political power is suppressed in order to restore the dynamics of the surplus. And this gives new impetus to privileged consumption.

— *Is it not conceivable that the upper strata would spontaneously, under the protection of a régime of force, limit their consumption and increase their coefficient of accumulation without any coercion at all?*

— Yes, it is conceivable, as you say. If that were the case, the dynamic capacity of the system would improve, although at the great social and political cost implicit in a régime of force. Please take a look at the facts, at the specific cases, and see what happens in such instances.

— *So you do not deny the possibility that the restoration of the dynamic capacity of the surplus might allow for the achievement of a satisfactory rate of development and the elimination of inflation under a régime of force?*

— I do not deny it. For that to happen, there would have to be a coherent and systematic policy, and the conclusive proof that such a policy was being followed would be the growth of the rate of accumulation at the expense of privileged consumption in order to achieve a progressive improvement of employment and distribution. I also believe that it would be possible to contain social inflation.

— *But could those and other dynamic objectives really be achieved? We would like your frank opinion.*

— I believe they could, if that were really the objective. Looking at the facts, however, I am convinced that once the dynamics of the surplus is restored to the benefit of the upper strata and to the detriment of the labour force, inflation becomes tolerable once again to the dominant social groups, regardless of whether it comes from internal or external factors. And if to that we add the fact that there is no decisive stimulus to the economy and in some cases there is an increase in unemployment, doesn't it seem to you that the use of force will inevit-

ably bring about tremendous frustration? A tremendous feeling of frustration among all those who have sincerely believed in the effectiveness of the laws of the market, but not among those who have increased their economic power extraordinarily: they praise the freedom they have enjoyed to do so, which is incompatible with the freedom of others.

This is what neither Friedman nor von Hayek recognize. They do not want to acknowledge that neoclassical principles can only be applied under a régime of force. Do you accept the idea that economic freedom can be imposed by suppressing political freedom? Will there be a constitutional consensus for that?

III

Back to Dr. Friedman

1. *Protection and subsidy*

— In order to keep the sequence of our dialogue, I had suggested we comment on von Hayek's ideas and then pick up the thread again. Now is the time to do that.

We at CEPAL have always been concerned about a certain latent tendency on the periphery towards external imbalance. It is true that Dr. Friedman does not particularly consider the imbalance at the periphery, but rather that which occasionally occurs in the centres. He feels, however, that this is no reason to resort to measures involving intervention.

He holds that the commercial imbalance brought about by external factors is corrected spontaneously by the play of the rates of exchange. I have his book here, and to avoid confusion, let me read the relevant paragraphs. He says the following:

"Suppose that, to begin with, 360 yen equal a dollar. At this exchange rate, the actual rate of exchange for many years, suppose that the Japanese can produce and sell everything for fewer dollars than we can in the United States: TV sets, automobiles, steel, and even soybeans, wheat, milk and ice-cream. If we had free international trade, we would try to buy all our goods from Japan. This would seem to be the extreme horror story of the kind depicted by defenders of tariffs —we would be flooded with Japanese goods and could sell them nothing.

"Before throwing up your hands in horror, carry the analysis one step further. How would

we pay the Japanese? We would offer them dollar bills. What would they do with the dollar bills? We have assumed that at 360 yen to the dollar everything is cheaper in Japan, so there is nothing in the United States market that they would want to buy. If the Japanese exporters were willing to burn or bury the dollar bills, that would be wonderful for us. We would get all kinds of goods for green pieces of paper that we can produce in great abundance and very cheaply. We would have the most marvelous export industry conceivable.

"Of course, the Japanese would not in fact sell us useful goods in order to get useless pieces of paper to bury or burn. Like us, they want to get something real in return for their work. If all goods were cheaper in Japan than in the United States at 360 yen to the dollar, the exporters would try to get rid of their dollars, would try to sell them for 360 yen to the dollar in order to buy the cheaper Japanese goods. But who would be willing to buy the dollars? What is true for the Japanese exporter is true for everyone in Japan. No one will be willing to give 360 yen in exchange for one dollar if 360 yen will buy more of everything in Japan than one dollar will buy in the United States. The exporters, on discovering that no one will buy their dollars at 360 yen, will offer to take fewer yen for a dollar. The price of the dollar in terms of yen will go down—to 300 yen for a dollar, or 250 yen, or 200 yen. Put the other way around, it will take more and more dollars to buy a given number of Japanese yen. Japanese goods are priced in yen, so their price in dollars will go

up. Conversely, United States goods are priced in dollars, so the more dollars the Japanese get for a given number of yen, the cheaper United States goods become to the Japanese in terms of yen.

"The price of the dollar in terms of yen would fall until, on the average, the dollar value of goods that the Japanese buy from the United States roughly equaled the dollar value of goods that the United States buys from Japan. At that price everybody who wanted to buy yen for dollars would find someone who was willing to sell him yen for dollars."¹⁷

— *Here again, we have a reasoning that is very attractive because of its simplicity. The market solves the imbalance by itself without there being any need for State intervention. Now we would like to know what you think about it.*

— In looking at this question, let us take as our point of departure several indisputable facts; all connected with the periphery. First, economic development brings with it a heavy growth of demand, particularly for industrial goods. Second, primary exports from the periphery are inadequate to cover the cost of meeting this demand, save in exceptional cases: that is why industrialization is an inevitable requirement of development. And, third, industrialization is also essential to absorb the great mass of the labour force that cannot be employed in primary production, either for domestic consumption or for export. And the more technology penetrates into primary production, the greater the need for industrialization will be.

If you do not object to our using this point of departure, let us continue our argument.

To satisfy this demand, there are only two possibilities and a combination of the two: one of them consists of developing domestic production of industrial goods with technologies that are already available to us and exporting part of these goods in order to import other industrial goods that we cannot manufacture because of the sophisticated technology involved or because we do not have the natural resources necessary to do so. This would be industrialization with extensive opening up to the outside.

The other possibility would be to stress production for the domestic market through import substitution rather than industrial exports. Which would you prefer?

— *We think the first possibility would be better, because it would allow us to gain the well-recognized advantages of trade.*

— So do I: I agree with you and we will come back to that later. For the moment, I would like to mention the differences between the industrial costs of the centre and those of the periphery that result from the technical and economic superiority of the centre, on which I will also expand in a while.

This is also an indisputable fact. The higher costs of industrialization in the periphery represent a considerable obstacle, whether it is a question of exporting industrial goods in competition with goods from the centres, or of producing them domestically also in competition with goods from the centres. Do you agree?

— *Of course. These facts exist independently of any theoretical consideration. Please continue.*

— Very well, for Dr. Friedman the solution is right at hand. If, as the result of higher costs, exports are lower and imports are higher than they should be and there is an imbalance, this will correct itself because it will bring about monetary devaluation, which will lower the cost of exports and raise the cost of imports without any need for State intervention.

— *That would undoubtedly be a logical consequence of Friedman's theory.*

— If we think it over, we can see that the immediate effects of devaluation would be similar to the effects of protection or subsidy, so why should we object to protection in order to make possible domestic production by defending it from excessive imports? And why object to a subsidy that would be equivalent to protection in order to promote exports? Frankly, I prefer the latter and I am going to explain why. I suspect, however, that you are inclined to agree with Dr. Friedman.

— *We will reserve judgement until we hear your argument.*

— Here are my objections. Devaluation not only cheapens exports of industrial goods that are not competitive, it also cheapens primary

¹⁷Milton and Rose Friedman, *op. cit.*, pp. 41-43.

exports that *are* competitive. This means a loss of income for the country concerned, particularly in the case of very sensitive products, where the increased supply would be accompanied by a drop in prices that would wholly or partially wipe out the increased value of exports, or even exceed it.

— *Let us interrupt for a moment. The proponents of devaluation suggest a tax on exports of competitive goods in order to avoid this adverse effect. Non-competitive goods, however, would be favoured by devaluation.*

— You must consider, however, that the tax would not be a spontaneous result of the play of the market, but rather a deliberate State action. It would be reverse protection, so to speak. I will continue stating my objections.

Devaluation means changing the entire internal system of costs and prices; protection, on the other hand, would have much more limited effects internally, and the lower the coefficient of foreign trade with respect to the global product of the economy, the more limited these effects would be.

Finally, this disturbance of costs and prices is translated into an overall increase in prices, bringing with it the need for a series of readjustments, which will eventually bring about another devaluation because the short-term effects I mentioned will have been lost.

— *Then you are against devaluation.*

— Let me explain. I am against this type of devaluation and I do not hesitate to say that I prefer protection or an equivalent subsidy, provided it is moderate and not abusive, as often happens.

But I am not against devaluation; on the contrary, I consider it absolutely necessary when it is a question of adjusting the external value of the currency to an inflationary rise in domestic prices in excess of international prices. It is well known that over-valuation causes serious imbalances, as it holds back exports and excessively encourages imports, to the detriment of domestic production and employment.

— *You already expressed your preference for industrialization oriented more towards exports than towards import substitution. We also prefer this course, as we have already said.*

— That is indeed so. But whether or not we are

able to pursue this preference depends not only on the decision taken by our countries, but also to a large extent, on the decisions of the advanced countries. Those countries have neither promoted the industrialization of the periphery in the past nor have they subsequently favoured this area's industrial exports.

2. *The centripetal nature of advanced capitalism*

— *Are you saying that this attitude has been intentional?*

— I do not attribute an evil intent to those countries, but rather I believe this situation is the consequence of the centripetal nature of advanced capitalism. This is a very significant fact which must be stressed. Industrialization has developed in those countries over a very long period, and their constant technological innovations have brought about an enormous increase in productivity. But the fruit of this productivity has remained in the centres themselves and has not been disseminated through the periphery by means of a drop in prices. And regardless of how this fruit has been distributed socially, it has remained in the centres themselves, it is there that demand has increased, and this increasing demand has stimulated innovation and industrial development.

During the course of this centripetal process, industry could not have reached the periphery spontaneously. It was not until the crises in the centres—the First World War, the Great Depression, the Second World War—that industrialization became essential in order to provide substitutes for what could not be imported. Consequently, substitution was not the outcome of a doctrinal preference, but was imposed by adverse external circumstances. And since the centres had progressed considerably in their technology and their capital accumulation, the periphery began its industrialization with an obvious handicap. Hence the greater costs, which make necessary protection and subsidy. And although this handicap is being overcome with regard to certain goods, it is still there with regard to others because of the constant technological innovations being developed in the centres.

— *But later this whole panorama changed and it became possible to export.*

— That is quite true, particularly during the long years of prosperity of the centres, which went on to the mid-1970s. Some Latin American countries took advantage of these favourable conditions and achieved fantastic results. They followed a policy of subsidies and different forms of export promotion. They violated the laws of the market! Even today, even with the centres in the midst of their crises these policies are still producing positive results.

— *Do you believe countries should go to extreme lengths to promote exports and abandon the policy of import substitution?*

— We are talking about two aspects of the same problem. It is necessary to stimulate exports while at the same time continuing to develop the domestic market through substitution. In my opinion, it is inconceivable that the centres should open their doors without restriction to everything we might need to export in order to meet the growing needs for imports required by development.

Moreover, this amazing increase and diversification of exports of manufactured goods has been achieved thanks to the industries created previously as part of the process of import substitution.

— *You suggest a combination of both measures, then. But in what proportions should they be combined? Which should be emphasized more: exports or substitution?*

— That is a good question. I believe the answer depends to a large extent on the attitude of the advanced countries. You know quite well that there are in these countries strong protectionist trends which are encouraged by unemployment, as well as by their centripetal tendencies. The centres are not following Dr. Friedman's advice at all, and have no intention of tearing down all the trade restrictions that hold back exports from the periphery. It is not merely a question of new restrictions, but rather of other very significant ones that started long ago, such as the establishment of sliding scales of customs duties: very low duties or no duty at all for imports of raw materials, with duties on processed materials that go up according to the degree of processing in the periphery.

— *We cannot help being surprised by what you have just said, as we thought that a policy of ample liberalization of imports had been agreed during the Kennedy Round and the Tokyo Round.*

— That is indeed true. But this policy is concerned primarily with the trade of the centres. It is to a large extent concerned with goods where the constant technological innovations of the centres are very evident—goods that are increasingly sophisticated and capital-intensive. This is a clear manifestation of the centripetal nature of advanced capitalism. Once more, the periphery is to a large extent left out, as it had been before with regard to industrialization.

In contrast, liberalization has not extended to the less sophisticated manufactured goods that the periphery has learned or is learning to export. If that liberalization occurred, it would be extremely advantageous for our development as well as for the centres, as we would import more from them, with the advantages resulting from a rational division of labour.

And here you have the answer to your previous question. The rational combination of measures to encourage exports and substitute imports depends fundamentally on the degree of liberalization to be found in the centres. These are not good years, because of the crisis the centres are undergoing, but it would be a serious mistake to weaken our export efforts and to falter in the struggle to get the centres to change their restrictive policies.

— *If we have understood you correctly, the more restrictive the centres are, the more the periphery will have to stress substitution?*

— Correct. Not substitution in watertight compartments, however, but rather in broader markets through reciprocal trade. Otherwise, it would be too costly because of the type of goods that have to be substituted.

— *Aren't you concerned about this cost? Isn't there some way of eliminating it?*

— Of course I am concerned, just as much as you are. Export subsidies involve a cost, as do taxes on imports. We must try to ensure that the cost is as low as possible.

Think about the fact, however, that this is the cost we must pay in the present stage of development in order to achieve more inten-

sive growth. There is a net gain, since the increase in the global product of the economy is much greater than this cost.

— *You have just referred to the present stage of development, which makes us think you consider this factor to be transitory. Is that so?*

— You have interpreted my words correctly. At present, our countries would not be able to swim in the strong current of the industrial trade of the centres. But as they acquire technological capabilities and accumulate more capital, they will gradually be able to do so. We must go through certain stages in our industrialization. Development policies must be aimed at accelerating the process. And, above all, we must not fall into dogmatic positions.

— *What do you mean by that?*

— I mean the Friedmanist dogma that opposes subsidies and protection. Under that dogma, some solid industries are being torn down and a longstanding industrialization effort is being destroyed.

I will end this dialogue here, for the time being, because I believe we must continue it and we must counteract the penetration of ideologies which have serious implications for Latin American development. We have an inescapable responsibility to do so. In this case we are not talking about just one of the many episodes of intellectual dissemination from the centres. This is clearly a phenomenon of deliberate propagation. Visits, interviews and conferences, ardently supported by a free-spending and well-organized campaign in the mass media. There is more, much more, behind this that pure apostolic zeal. This is a systematic

effort to turn back the clock, and it represents a tremendous step backwards intellectually, just at a time when we had managed to move forward, with great difficulty, in interpreting Latin American development.

Over thirty years ago, we demonstrated the falseness of that long-past scheme of international division of labour, to which neoclassical theoreticians would now have us return. And in the name of economic freedom they would justify sacrificing political freedom.

Let Milton Friedman understand! Let Friedrich von Hayek also understand! A genuine process of democratization was moving forward in our Latin America, with great difficulty and frequent delays. But its incompatibility with the system of accumulation and distribution of income is leading towards crisis. And crisis brings about an interruption in the process and the suppression of political freedom: just the right conditions for promoting the unrestricted play of the laws of the market. What a paradox you involve! You praise political freedom and individual rights. But don't you realize that in these lands of the periphery, your preaching can only bear fruit through the suppression of that freedom and the violation of those rights? A tremendous paradox and a tremendous historical responsibility. Because, not only do the ideologies you preach perpetuate and aggravate social inequalities, they also conspire flagrantly against the effort that must be made to reach new forms of understanding and articulation between North and South. The damage you are doing with your dogma is immeasurable!

Some CEPAL Publications

Statistical Yearbook for Latin America 1979, CEPAL, Santiago, Chile, 1980, 457 pages.

The first part of this annual publication includes socioeconomic indicators derived as growth rates, shares and coefficients or proportions which present a summary view of the situation in each area of interest and at the same time provide data for more specific information uses. This set of indicators includes those used in the periodical regional appraisals of the International Development Strategy. The second part contains the historic series in absolute values, thus usually permitting their use for a wide variety of purposes.

The indicators in the first part correspond in general to the years 1960, 1965 and 1970 and the period 1975 through 1978; when the data are not sufficiently up-to-date, the last available year for each country has been included. As an exception, the presentation of the social indicators begins in 1950, in order to show the trend for each one over a longer period of time. The economic indicators are presented from 1960 on, since it is possible to reconstruct the series before that date by using previous editions of this publication. Some of the indicators based on census information appear only for the years in which the taking of the respective censuses was concentrated.

The statistical series of the second part generally correspond to the years 1960, 1965 and the period from 1970 on. Some social statistics, which have not been estimated systematically, are included exceptionally for 1960, 1965, 1970 and the last available year. Excepted from these estimates are the census data, which by nature are gathered in given years. The figures for the latest published years correspond in each table to non-definitive values.

The closing date for the inclusion of statistics in this edition of the *Yearbook* was the month of November 1979.

La industrialización de América Latina y la cooperación internacional, "Estudios e Informes de la CEPAL" series, No. 3, Santiago, Chile, 1981, 170 pages.

The study of the industrialization process in Latin America presented in this report extends over the past 25 or 30 years with the object of bringing out and to a certain extent reaffirming, on the hand, the principal facts and trends which have been present and dominant in the evolution of the manufacturing sector and, on the other, to find, in the different stages through which the process took place, the elements which make it possible to answer the questions raised today by the industrial development of the region. Despite the various conjunctural situations, the disconcerting and uncertain conditions currently characterizing the world economy and the particular situations of the countries, the report reaffirms that the basic principles which assign to industrialization a primary role in development continue to be valid.

Thus, the retrospective analysis of what has happened in the region in the past three decades shows that in the growth of the Latin American economy industry has played

an important stimulative role, and its progress has been really significant. As a dynamic sector, industry has grown at a higher rate than the other sectors of the economy, due to the high elasticity of demand for manufactures and the industrializing pattern adopted by the countries of the region. However, it is also true that the industrialization process shows marked influence from external factors, due to the growing linkage with the world economy.

In this respect, the models to which the manufacturing development of the region has tended to adapt are by no means unrelated to the trends and modifications experienced by world industry and the international trade in manufactures as well as, of course, in a broader context, world political and economic events. Along with external elements, conditioning factors derived from the external relationship have helped to shape the industrial environment displayed today by Latin America and, to a large extent also, the framework of its future prospects.

However, the effect of and response to external conditioning factors have been very different in the various countries, according to the domestic characteristics and aptitudes of each one, which helps to explain the notable differences in the models and degrees of industrial development.

It is these aptitudes which ultimately explain the characteristics marking the process of Latin American industrialization and the respective differences between countries. These aptitudes are related, *inter alia*, to the endowment of natural resources, size of markets, geographical location, level of development previously reached, degree of external openness of the economy, socio-political systems and stability, and readiness to define and carry out industrial development strategies and policies.

This report contains two documents. The first, *Análisis y perspectivas del desarrollo industrial latinoamericano*, examines the most significant aspects of the industrialization process shaped by the progress, problems and potential present today in the Latin American manufacturing sector, both regionally and at the country level. Also examined are some alternatives for the medium- and long-term evolution of the sector.

The second document, *Cooperación internacional para el desarrollo industrial de América Latina*, centres its attention on the role of international co-operation in all its aspects—subregional, regional, interregional and world-level—as a basic element supplementing and supporting the actions to be undertaken domestically by the Latin American countries to stimulate their industrialization process. In this respect, the proposals made by the countries of the region in various international forums are put forward regarding areas felt to be of priority importance for the international co-operation which the region needs to receive.

Hacia los censos latinoamericanos de los años ochenta, "Cuadernos de la CEPAL" series, No. 37, Santiago, Chile, 1981, 146 pages.

Through the Census of the Americas programme in 1950 (COTA-1950), the Inter-American Statistical Institute (IASI) gave a strong impulse to census activities in the region, which were steadily extended and developed in the latef decennial programmes.

In the 1970 censuses, this impulse was reinforced by the collaboration of the Economic Commission for Latin America (CEPAL) and the Latin American Demographic Centre (CELADE) with IASI and the national statistical offices, which consolidated the tendency to promote innovations in research on certain subjects, thus allowing for the incorporation of the conclusions of the centres which specialize in the demographic and social analysis of the region. Also stressed was the achievement of greater homogeneity in the content, definitions and procedures of the censuses, so as to facilitate comparability of results.

In order to contribute new background ideas for the population censuses of the 1980s, the Statistics and Quantitative Analysis Division of CEPAL has tried to gather together the experience on census matters accumulated in the region, and on this basis to suggest guidelines for the next censuses which take into account the peculiarities of the demographic and social situation of the countries, the progress made in the study of each one of the subjects included in the census, and the conclusions reached by the experts in the organization of the census operation.

For this purpose, meetings were held with producers and users of census data, in which a very careful study was made of population censuses: their objectives, census administration, subjects included, classifications used, etc.

This Cuaderno presents in summary form the main conclusions emerging from the above meetings or, in the cases where it was not possible to reach conclusions as such, the different points of view on particular subjects. Special importance is given to the examination of the principal analytical and practical reasons for deciding whether or not to include a topic in the census, in the belief that the current state of census technology in the region justifies renewed reflection on the substantive and pragmatic aims being pursued through the costly and complex census operation.

Another important ingredient has been the need to balance adequately the importance given to the different topics and the limitations of organization, methodological techniques and budgets common to census practice in the region. Where relevant, other data-collection practices are mentioned—such as household surveys—which, if integrated with the censuses, could significantly enrich the available statistical information.

The main objective of this document is to offer to staff members of Latin American statistical offices, and especially those in charge of census operations, the theoretical knowledge and experience accumulated in the region by experts from various international organizations. The ideas expressed here seek to up-date the discussion on the difficult adjustment between the heterogeneous reality of the countries and the necessary uniformity of the recommendations made by international organizations.

Desarrollo regional argentino: La agricultura, by Juan Martín, "Cuadernos de la CEPAL" series, No. 38, Santiago, Chile, 1981, 111 pages.

This work, which forms part of a broader study done by CEPAL and the Consejo Federal de Inversiones (CFI) of

Argentina, analyses the regional structure of agriculture in that country to explain some of the determining causes of the low average levels of productivity and income in rural areas of the northern region.

One of the most outstanding characteristics of the agricultural sector in Argentina is its large share in the product, both in the backward provinces and in those which are relatively more developed. In other words, it is not possible to associate underdevelopment with agricultural activity in an indiscriminate manner. The various degrees of regional development appear to depend more on the type of their specific production and their form of insertion into the whole group of economic activities than on the preponderance of the agricultural sector. To explain regional disparities, it is thus necessary to examine in detail the structure and function of this sector—and especially of the crop-farming subsector—with particular attention to the different patterns of regional specialization.

It is also clear that there is a marked heterogeneity in the economic functioning of the productive units devoted to the same specialized production, mainly because of the different endowments of productive factors of each unit.

The main thesis of this work is that the interaction between the pattern of specialization and the internal heterogeneity explain the low average levels of productivity and income in the northern region.

After a brief introduction, chapter 2, divided into three sections, differentiates between the patterns of provincial specialization in agricultural production. The first section examines the importance of the sector in the provincial economies, and the relative weight of crop-farming and livestock activities. The second analyses in greater detail the composition of the provincial productive base in regard to agriculture; the analysis includes 46 crops which together represent more than 95% of the gross value of national crop-farming production and more than 90% of the corresponding value for each province. The third section distinguishes between the productive base and the export base, concentrating the analysis on provincial export products. Based on this information, it proposes a typology of provinces according to the degree of diversification and the type of crops characterizing their insertion into the national economy.

Chapter 3 examines the consequences of each pattern of specialization for the producers and their respective provinces. The background information briefly describes the origin of the regional productive specialization associated with different stages of national development. It then analyses the evolution of the principal provincial export crops in the period 1955-1973, according to the destination of the production and the producers' capacity to respond to differential variations in prices and yields. The information gathered for this purpose has been systematized and is presented in the statistical appendix. In addition, provincial variations in gross income per hectare of the main crops harvested are examined, as is the relationship between the stability of the level of provincial income derived from export agricultural products and the provinces' patterns of productive specialization.

Chapter 4 seeks to make an approximation of the organization of the productive activity for each crop and

specialized region, on the basis of the factor endowment of different types of productive units. The first section analyses the structure of the use and holding of land and the resulting options for production, the analysis being based on census data from 47 provincial departments selected for their high degree of productive specialization. In the second section, occupational density and structure and some aspects related to the adoption of technological innovations are discussed. Finally, the capacity and mechanisms of accumulation in productive units of different scales and levels of specialization are analysed; this makes it possible to differentiate levels of income among producers and between them and agricultural wage-earners. Chapter 5 presents the summary and conclusions of the study.

Distribución regional del producto interno bruto sectorial en los países de América Latina, "Cuadernos Estadísticos de la CEPAL", series, No. 6, Santiago, Chile, 1981, 68 pages.

In most Latin American countries there is marked regional imbalance which makes it difficult to achieve more integrated development. In order to adopt the measures needed to correct this situation, knowledge of the structural characteristics of the economy and its regional behaviour is required.

For this purpose, information is generally available on the various particular aspects of each region but not always, nor for all cases, are there continuous, up-to-date and reliable statistical series which can serve as an adequate and timely basis for policy decisions and planning of regional development.

This is largely due to the shortage of resources, the dispersed nature of the regions, difficulties of communication and inadequate basic information available. But there is also the fact that there are no international, explicit recommendations on regional accounting; in practice, an attempt has been made to adapt those existing at the national level, but their application and development pose various conceptual problems and many new measurement problems. Moreover, data banks place greater emphasis on matters related to production of goods and services, where the information is relatively more abundant and reliable. This explains why efforts at regional appraisals by the countries have been oriented, in the first stage, almost entirely towards developing estimates of the domestic product.

This Cuaderno derives from the data base on regional appraisals kept by the Statistics and Quantitative Analysis Division of CEPAL, and is a selective and updated version of the document *Experiencias sobre cálculos del producto interno bruto regional* (E/CEPAL/1012), prepared in 1975. Its purpose is to state the results and describe the most important methodological aspects of the principal experiences in this field in the countries of the region. Although the majority of these estimates were basically designed to meet the specific needs of each one of the countries which carried them out, they show a certain uniformity in their calculation procedures and objectives, since in general they give special importance to calculating aggregates and indicators of regional growth and obtaining economic data which can be used for regional programming and in-

tegrated planning within the institutional framework in which the countries are developing.

Pobreza crítica en la niñez, compiled by Fernando Galofré, CEPAL/UNICEF, Santiago, Chile, 1981, 422 pages.

In recent years considerable research has been carried out on the overall development of the child. The resulting evidence tends to demonstrate both the importance of the first six years of life and the preponderant role the experiences of these years play in the child's future; they especially show that the hardships suffered by poor children make the consequences for them particularly serious, both from the point of view of their overall development and in regard to their possibilities in later stages of development.

The areas which attract most attention as possible orientations for policies in the region are attention to the pre-school child, food and nutrition, early stimulation, health measures and mother-child care, plus the importance attached to the family and the community. However, in the majority of cases these activities continue to appear as isolated efforts which have not succeeded in spreading as integral solutions to the problem of the deprived child, nor have they been evaluated adequately as to their social, economic and cultural importance.

In order to analyse the knowledge, experiences, strategies and policies directed towards helping poor children from birth to the age of six, in December 1979 UNICEF and CEPAL sponsored the Regional Symposium on Critical Poverty among Children, at which 18 papers were presented. These studies are included in their entirety in this book; the authors are academics, researchers, and staff members of national and international organizations in different countries of the region. The group of studies covers a relatively broad spectrum of knowledge, experience and action related to the deprived child under six years of age.

The chapters of the book have been arranged in five parts. They begin with a paper describing the situation of poor children in the region, followed by studies which assemble information supporting the need for intervention. Policy and financing trends are then analysed, relevant experiences of the different countries are examined, and the concluding papers deal mainly with the evaluation of the results obtained.

La infraestructura de información para el desarrollo. Informe de diagnóstico regional (The information infrastructure for development: a regional diagnosis), CEPAL/CLADES, Santiago, Chile, 1981, 286 pages.

Since its creation in 1971, the Latin American Centre for Economic and Social Documentation (CLADES) has felt the need to know the infrastructure of existing information services in the region in support of actions for development such as the formulation of plans and policies, elaboration of studies and research, execution of programmes and projects and functioning of organizations and institutions with economic and social impact.

Thanks to the generous support of the International Development Research Centre (IDRC) of Canada, which at

the time was completing a feasibility study on an international information system for development sciences (DEV-SIS), CEPAL was able to set in motion an ambitious regional project in the first quarter of 1976. The survey covered nearly 800 information units, mainly specialized libraries, information centres and documentation centres in 22 Latin American and Caribbean countries.

The information gathered was then organized in line with an appropriate conceptual scheme to make a diagnostic study of the information infrastructures by countries, subregions and the region as a whole, and to prepare directories which were widely distributed.

This two-part report comprises eight chapters, plus a final section of reflections and a series of annexes.

The first part, *Information infrastructures and development: the basis of the study*, is designed to present the basic features of the project, i.e., its objectives, the context of the problems involved, how and where research is carried out, and the conceptual framework designed to organize the collection of data and its subsequent analysis. Included here is all the information needed to facilitate an understanding of the study and to evaluate the information it brings to light.

The second part of the study, *Diagnosis of development information infrastructures in Latin America and the Caribbean*, presents the information by countries, subregions and the region as a whole. It has been organized into four subregions in accordance with similar criteria to those used in the population statistics developed and published by the Latin American Demographic Centre (CELADE), namely: (a) the Atlantic subregion of South America; (b) the Andean subregion of South America; (c) the subregion of Central America and Mexico; and (d) the Caribbean subregion.

The report concludes with a section entitled *Final reflections and projections of the study*, which outlines the contribution of the diagnostic study within a broad concept of the information infrastructure which goes beyond that of a mere group of information units. This includes technical support components in the areas of professional training, further training, technical advisory assistance, standardization and research in information sciences and related disciplines; an interface with the institutions which generate and use information, and finally a co-ordination mechanism for planning, promoting, regulating and financing the whole set of activities.

Tesoro del medio ambiente para América Latina y el Caribe (An environmental thesaurus for Latin America and the Caribbean), CEPAL/CLADES, Santiago, Chile, 1981, 159 pages.

Several years ago the Latin American Centre for Economic and Social Documentation (CLADES) began the task of investigating the terminology used to identify environmental problems in the Latin American countries; this report is the result of the first stage of this task, in which a controlled vocabulary has been developed for the processing and transfer of information.

For a better understanding of the subject and the proper application of the descriptors in the process of

analysis of environmental information, this *Thesaurus* presents, in the first part, the modules or broad categories in which the descriptors have been grouped. These categories offer an overall view of the components of the environment and coincide with the organization used by most specialists to study the Latin American environmental context. The aim is to locate the user of the *Thesaurus* in relation to a spatial and historical sequence in the trajectory of the topic and thus show how the handling of this task is inseparable from consideration of the socioeconomic factors of the region.

In accordance with this approach to the environmental subject area, this part of the *Thesaurus* contains five modules: I - The physical environment; II - The constructed environment; III - Environmental impact; IV - Response capacity and V - Sciences and disciplines.

The second part includes an alphabetical list of the descriptors with their abbreviations in English.

Planificación social en América Latina y el Caribe, edited and co-ordinated by Rolando Franco, ILPES/UNICEF, Santiago, Chile, 1981, 589 pages.

In the mid-1960s, an author could justly state that the major missing factor in Latin American planning was the social aspect: today, however, the situation has changed. In different ways and to varying degrees, the countries of the region are increasingly including the social content in their planning.

The reasons for this change are probably varied, but some should be pointed out in particular. On the one hand, there is consensus that the optimistic view which inspired many of the efforts for development in the past is not necessarily realistic. This view was based on the belief that economic growth would necessarily bring with it an improvement in the standard of living of the masses. Experience has shown that it is possible for an economy to have a very acceptable rate of development and to increase its per capita income, but without producing sizeable distributive effects, and with such development perhaps even being accompanied by a worsening of the concentration of social goods and an increase in the proportion of the population living in critical poverty.

Moreover, social expenditure cannot be viewed only as consumption, but must also be seen as an investment. The improvement of the general living conditions of the population through nutrition and food, health, education and housing policies, for example, greatly helps to increase the productivity of the labour force and thus to improve the purely economic indicators. This argument, which some may consider utilitarian and which has always been used, has nevertheless not lost its validity.

Another factor which makes social planning very important today is the crisis of traditional social policy. Recent experience tends to cast doubt, in many cases, on whether the sectoral policies facilitate, at least to the extent required, the incorporation of new human contingents into the benefits of progress. For this reason new paths have tended to be explored, many of them of a typically multisectoral nature, which pursue a greater redistributive impact of social expenditure through precise identification

of the focal groups of the policies and their integration in order to take advantage of their potential multiplier effect. The approaches based on critical poverty, the satisfaction of basic needs, integrated rural development and other similar experiences are oriented in this direction, although they suffer from serious limitations.

Despite the importance of this subject, however, the literature on it is not very extensive, and thus this work helps to fill an appreciable void. Its 24 studies are grouped into five sections dealing with development and social planning, the theory of social planning, techniques of social planning, planning of social sectors and the target populations of social policy.

Planning Bulletin of the Latin American Institute for Economic and Social Planning (ILPES), No. 12, June 1981.

This number of the Bulletin includes four articles in addition to the usual Notes and Comments. It begins with the work prepared by the ILPES Senior Administration, "Planning in the 1980s: An action proposal", which is a summary appraisal of the role of planning with regard to the main challenges raised by the current problems of Latin American development. Like all such exploratory and preliminary works, it places special emphasis on the definition of a conceptual framework to facilitate analysis and evaluation of the various planning experiences and practices in the region.

As a complement to this article, the "Strategy for the Caribbean countries in the Third Development Decade" is then given. In this work, a group of experts and staff members of various organizations identify the main challenges existing in the subregion and formulate a series of opinions and concrete recommendations on the desirable objectives and on the most urgent actions needed to meet these challenges. Because of its practical orientation and clear identification of actions, it is obligatory reading for those concerned with economic and social development in the Caribbean countries.

In view of the persistence of the old problems characterizing development in Latin America and the new challenges on the national and international fronts, Fernando H. Cardoso's article "Development at the crossroads" is a valuable contribution to the deeper theoretical study and evaluation of policy alternatives to reconcile the objectives of wellbeing and growth.

Rolando Franco's article "Development, poverty and basic needs" systematically analyses the conceptual and policy problems connected with extreme poverty. In particular, it includes an analysis of the so-called basic needs strategy and identifies the most outstanding characteristics of the target groups of antipoverty policies.

The section "Notes and Comments" presents a synopsis of the Seminar on Public Enterprises in Central America and the Caribbean held in the second half of June in San José, Costa Rica, and a summary of the Seminar on Social Participation in Latin America held in Quito, from 17 to 21 November 1980.