

CEPAL

Review

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CONTENTS

| | |
|--|-----|
| The originality of a copy: CEPAL and the idea of development <i>Fernando H. Cardoso</i> | 7 |
| Preconditions and propositions for 'Another development' <i>Marshall Wolfe</i> | 41 |
| Fiscal policy and integrated development <i>Federico J. Herschel</i> | 67 |
| Notes on the future of the western democracies <i>José Medina Echavarría</i> | 113 |
| Comments by John Durston | 138 |
| Comments by Carlo Geneletti | 140 |
| Comments by Eduardo Palma | 144 |
| Comments by Gregorio Weinberg | 146 |
| Comments by Marshall Wolfe | 149 |
| Small nations and the 'constrictive' style of development <i>Carlos Real de Azúa</i> | 153 |
| The deficit in urban services: a structural limitation? <i>Francisco Barreto and Roy T. Gilbert</i> | 175 |
| On the article by Raúl Prebisch "A critique of peripheral capitalism" | 187 |
| Comments by Joseph Hodara | 187 |
| Comments by Eugenio Kossarev | 191 |
| Comments by Octavio Rodríguez | 203 |
| Comments by Marshall Wolfe | 217 |
| Some CEPAL publications | 223 |

the following may be recalled: *Panorama de la Sociología Contemporánea; Social Aspects of Economic Development; Economic Development in Latin America. Sociological Considerations; Filosofía, Educación y Desarrollo; Discursos sobre Política y Planeación*. Some of these noteworthy contributions ran into several editions.

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100718) At the funeral of José Medina Echavarría the Executive Secretary
100091) of CEPAL, Mr. Enrique V. Iglesias, said:

It is supremely painful for me to have to speak at this sorrowful moment to bid farewell to the mortal remains of our dear Don José. With them goes the physical presence of a great thinker, a great man, a great friend.

This is not the moment to remember don José Medina Echavarría as the distinguished intellectual he was. The United Nations and CEPAL will do so on another more appropriate occasion; and with our voices will join those of a whole school of social thought which found in him a fruitful source of inspiration. History will do him increasing justice. His long years in the United Nations are represented not only by the writings that his hand has left behind, but equally or more so by the spirit of inquiry he could quicken in some of the horizons he opened up for others, in his uninterrupted quest of new avenues of approach for the work of this institution, which owes him so much.

What we will recall now is the irreparable loss of the man himself, the loss that we feel so strongly, with the grief that brings a lump to the throat. All of us enjoyed, in greater or lesser measure, the benefit of his natural kindness, his benign courtesy, his constant anxiety to help others and never be a burden to any one. He was a gentleman in the true meaning of the word, and a humanist in the deepest personal and intellectual dimensions of the term.

The fact is that his profound respect for the human individual, his whole conception of life, led him instinctively, as it were unawares, and with a touching modesty, to promote a dialogue which was almost invariably more fruitful for others than for himself. His manner was consubstantial with the pains he took to assist his interlocutor, to give him both intellectual and sympathetic support.

An exceptional personality has left us: a product of an exemplary generation, who made his life an ideal and generous self-giving *raison d'être*. Many years will go by before CEPAL can hope to harbour anyone who will fulfil a function with so much dignity, who will enrich our dialogues with so much culture, whose mere presence will inspire so much respect.

Our corridors will miss the sound of his pleasant greetings, and in our colloquies will be lacking the sober silence of the man to whom all eyes automatically turned in eager expectation of the polished speech that would convey his unassuming wisdom, his overwhelming good sense, his unforgettable benevolence.

It falls to my lot, and this is much harder still for me, to say goodbye to the friend I respected so much and whom I felt it a privilege to hold in affection and esteem.

From the day I first came to CEPAL, many years ago now, I enjoyed the advantage of his counsel and the warmth of his moral support, which was intensified in the last few years, for him so fruitful in intellectual output, so unforgettable for me. Don José, you leave us today in the body. The ideal of your life stays behind with us. Your gentle memory will still live on in all your friends.

Rest in peace, dear friend.

JOSE MEDINA ECHAVARRIA

Just before this issue went to press José Medina Echavarría died. With his departure Hispano-American sociology loses one of its firmest mainstays and most fecund minds: an invaluable asset both for the profundity of his analyses and for the formative influence which his critical and innovative thinking exercised on several generations of intellectuals.

“Don José”, as his friends and colleagues called him with affectionate respect, was born in Spain on 25 December 1903 and died in Santiago, Chile, on 13 November 1977. He read philosophy and education in the universities of Valencia and Madrid, where in 1925 he obtained a doctorate in jurisprudence. Between 1931 and 1932 he taught in the University of Marburg, and from 1932 to 1936 he was legal adviser to the Spanish Parliament. Subsequently he held the Chair of Philosophy of Law in the University of Murcia, and between 1937 and 1939 was Chargé d’Affaires at the Spanish Legation in Poland.

Like other representatives of a generation that was exceptional on many counts, Medina Echavarría came to Latin America as an exile, after the defeat of his side in the Spanish Civil War. In 1939, still young but already matured in the hard school of tragedy, he arrived in Mexico, with his background as a lawyer and professor of philosophy of law and his marked leaning towards sociology.

In 1941 he published *Sociología: teoría y técnica*, a work which represented the fruit of his long research and exemplary teaching experience. To his writings, José Medina Echavarría then added a no less important activity: he founded the Sociology Section in the Fondo de Cultura Económica, and promoted the collection of texts (*Cuadernos*) published by the Colegio de México under the title of “*Jornadas*”.

Thus there appeared the first Spanish translations of the works of Max Weber, Mannheim, Tönnies and many others who exerted a significant formative influence on the rising generations which after the Second World War sought to breathe new life into Latin American sociology.

Between 1939 and 1944, Medina Echavarría was a professor of sociology in the Universidad de México and taught in the Colegio de México; subsequently, he held the Chair of Sociology in the University of Puerto Rico.

In 1952 he joined the staff of the Economic Commission for Latin America (CEPAL), where he began the fruitful teaching and research work in the field of social development, which from the 1960s onward was continued in the Latin American Institute for Economic and Social Planning (ILPES). Recently, José Medina Echavarría had devoted himself with fervour to the study of questions linked to development styles, social change and prospective Latin American development problems.

Similarly, José Medina Echavarría was the founder and first Director of the School of Sociology of the Latin American Faculty of Social Sciences (Facultad Latinoamericana de Ciencias Sociales – FLACSO), through which have passed several generations of scientists and intellectuals destined to gain an international reputation later on. The titles of his works form a long list of books and essays, even a brief analysis of which would be beyond the scope of this short review. Among the most important of them

The secretariat of the Economic Commission for Latin America prepares the *CEPAL Review*, but the views expressed in the signed articles, including the contributions of secretariat staff members, are the personal opinions of the authors and do not necessarily reflect the views of the Organization.

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.

The originality
of a copy:
CEPAL and
the idea of
development

Fernando H. Cardoso *

Towards the end of the 1940s and in the early 1950s, CEPAL prepared certain documents which had far-reaching repercussions on Latin American thinking about development. The present article outlines the central ideas expressed and relates them to other doctrinaire and academic positions which have also found echoes in the region during recent decades. For example, it presents the conventional ideas on international trade and development which CEPAL's 'thinking' combated from the very start: the critical reactions aroused by this thinking among liberals and marxists; the alternative theories formulated by 'orthodox' writers (such as G. Haberler and J. Viner), 'heterodox' liberals (G. Myrdal, R. Nurkse, A. Hirschman) and marxists (such as P. Baran). It also describes how CEPAL's ideas modelled development policies and adapted themselves to new situations. Lastly, it analyses the relation between the 'CEPAL' current of thought and others even more recent: those relating to the 'malignant' style of development, structural dependency and 'another development'. The author concludes that while CEPAL thinking has undergone a change on coming into contact with new situations and theories, it still keeps its basic nucleus alive and valid.

*Formerly a staff member of ILPES and at present Director, Centro Brasileiro de Análise e Planejamento (CEBRAP).

Introduction*

Among the critics of culture in Latin America an intermittent, but not uninteresting, debate is going on about the effects of dependency on the production of ideas. Some of the most acute of the theorists writing on Brazilian literature (such as Antônio Cândido de Mello e Souza and Roberto Schwarz¹) have been attempting to show how the *same* idea, once transferred from the centres of the international production of culture to the periphery, becomes a different thing. Perhaps the classic example of this — as pointed out by another historian of ideas, Professor João Cruz Costa² — is the transfer of Auguste Comte's positivism to Latin America. The markedly conservative connotation attached to positivism in nineteenth-century Europe (as attested by the sublime contempt with which this school of thought always treated, for example, the Marxist conception of the class struggle) underwent considerable modification in Latin America. This inhospitable habitat — bestrewn with social and cultural relations produced by ways of life which, even when harnessed to the dynamics of

*This paper would not have been written without the help of José Serra, who gave me advice on the selection of texts and carried out the research on bibliography which was indispensable to substantiate the analysis, besides suggesting lines of approach for the interpretation. I am also grateful to Winston Faitsch for his criticism and help.

¹The most important work by A.C. Mello e Souza is *Formação da Literatura Brasileira*, São Paulo, Livraria Martins, 1959, 2 volumes. The writings of another leading specialist in the sociology of ideas, Roberto Schwarz, include "As idéias fora do lugar" ("Ideas out of place"), in *Estudos*, N° 3, São Paulo, CEBRAP, January 1973.

²João Cruz Costa, *Contribuição a História das idéias no Brasil*, Rio de Janeiro, Livraria

international capitalist expansion, offered resistance to the increasing rationalization of society and the economy—engendered a rather engaging distortion of positivism. It was turned into a paladin of the idea of progress. The difference in cultural habitat, however, could not kill the other root idea of positivist political philosophy, that of order. But at least its zeal for uniformity was mitigated by the change of environment, thanks to the constitutional diversity and disorder bred in the region by the miscegenation of modes of production stemming from conflicting basic principles; and positivism thus became a reformist rather than a reactionary ideology. The “scientific politicians” were partisans of the republic against the monarchy in Brazil; and it was they who trumpeted in the inspired (if not enlightened) Mexico of Don Porfirio—gravedigger (even if a temporary one) of the *ancien régime* and, willy-nilly, forerunner of the Mexican Revolution.

In this context, Roberto Schwarz has had some penetrating things to say about what happens to imported ideas in the process of their consumption. Taking as an example one of the best (if not the very finest) of all Brazilian novelists, Machado de Assis, Schwarz critically appraises the process of cultural absorption of European thought by the ‘natives’. The liberalism they adopted, for example, came into conflict with slavery, an institution which was utterly anti-liberal, but was nevertheless one of the pillars of contemporary Brazilian society. Subtly, Machado de Assis infuses an implicit criticism of this state of affairs into his novels, which unfold in a world of fantasy. To define this type

José Olympio Editora, 1956, esp. chapters 3 and 4.

of ‘perverted acculturation’ of ideas, Roberto Schwarz proposes what has become known as the ‘ideas out of place’ approach, a sort of cultural ecology, concerned with the effects of transplantation from one habitat to another on the delicate shoots of ideology.

This approach has, of course, provoked reactions. There has been no lack of ‘purists’ and ‘precisions’ to criticize the idea of ‘cultural transplantation’ on the grounds that it lends itself to mechanisticism and that the analogy between the social and the natural world is unsound. In the former, structural relations themselves are established and re-established by human practice, so that in the process of re-creation they always become, in one way or another, *autochthonous*. For the purposes of the present paper there is no point in pursuing this discussion in greater depth, especially as among minds trained in *jeux d’esprit* it is always understood that the theses propounded are meant to be taken with a pinch of salt.

Be this as it may, I should like to emphasize here that what we are going to try to discuss now is the exact opposite of the theme usually recurrent in the history of Latin American ideas: we are going to discuss *ideas in their place*. ‘Talking pays no toll’, or, as a popular Brazilian saying has it, hardy words are like holy water; you can help yourself to as much as you like. Even so, it is safe to assert that at least some ideas about economic development did originate in Latin America.

In case this jacobinic and somewhat narcissistic tone should create the impression that such bragging is a mere mask for the apprehension aroused by the admonition to the authors of papers (“new summaries of known positions and rearming of old ideas are worth

nothing”), let me state at the outset that I shall also take care to show that even the most original Latin American thinking on economic development has its roots outside the continent. I shall not, however, take ideas on development as mere ‘reflections’ of the brilliant sunlight of western thought. In the field of

ideas it often happens that what is new is precisely the ‘rearming’... provided that a little seasoning is added to the water which is used to prevent the old ideas from being dried up to nothing in the process.

Were this denied, it would be very hard not to bow to the ancient dictum: There is nothing new under the sun.

I

CEPAL and developmentalism

(a) *Current ideas on international trade and development*

During the nineteen-fifties the Economic Commission for Latin America (CEPAL) became a channel for the diffusion of a whole set of theses concerning the causes and conditions of development and the obstacles in its way, thus stamping a sort of hallmark on Latin American thinking in the realm of economics.

A first step towards showing what was new in CEPAL’s formulations, however, must be to summarize the conceptions which had prevailed until then with respect to international trade and its role in economic growth.

The justification of diversity and specialization in production at the world level was grounded on certain assumptions.

The point of departure for the theory of international trade is the ‘law of comparative advantages’ formulated by Ricardo. To put it simply, Ricardo says that international trade will lead to specialization in production by countries according to the relatively lower costs of labour, and that this will result in gains for all countries. Thus, to quote his

classic example, the unit cost of labour for production of wines and textiles is lower in Portugal than in the United Kingdom; but the comparative advantage in labour costs is greater for wines than for textiles, and, consequently, it would be more to the advantage of both countries for Portugal to produce wine and the United Kingdom textiles.

Subsequently, the neoclassical economists repudiated Ricardo’s theory of value based on labour costs. In the context of international trade theory, they asserted that comparative costs would not be confined to those of labour. Other factor costs—those of capital, and of natural resources—also entered into the calculation of inter-country comparative advantages. Thus reformulated, the neoclassical theories on international trade maintained the Ricardian law of ‘comparative advantages’.

It is perhaps Bertil Ohlin who gives the fullest version of the pure neoclassical theory of international trade. He attempts to account for trade gains and to analyse, at the same time, the effect of international trade on the remuneration of the factors of production. As a corollary to Ohlin’s theories on the

specialization of production and the utilization of the factors of production in accordance with the resources at a country's disposal, it can be inferred that trade is likely to make for *relative* inter-country equalization of the remuneration of the factors of production.³

For obvious reasons, the foregoing version of international trade theory gave rise to world-wide discussion; it made trade into an appropriate instrument for reducing the inequalities between nations. The debate was not set afoot by Ohlin alone, since his hypothesis enlarged upon other formulations, especially Heckscher's studies on the subject.⁴ Since then other questions have been raised: Would the assumed equalization of factor remuneration produced by world trade be relative or absolute? Would it be complete (i.e., implying total elimination of differences between national economies) or partial?

Ohlin accepted only a trend towards *relative* equalization of remuneration of factors, inasmuch as *complete* equalization would presuppose total factor mobility. This latter hypothesis cannot be adopted by pure international trade theory, since it implies the homogenization of the economic space, and thereby does away with the essential reason for international trade: specialization in production.⁵

³ See Bertil Ohlin, *Interregional and International Trade*, Cambridge, Harvard University Press, 1933.

⁴ Ohlin's book elaborates upon Heckscher's theory and gives it greater consistency. See Eli Heckscher, "The effects of foreign trade on the distribution of income", in American Economic Association, *Readings in the Theory of International Trade*, Philadelphia, 1949.

⁵ See Ohlin, *op. cit.*, especially p. 39, subsection 3, "The gain from international trade".

It was primarily Samuelson who carried the neoclassical theory of international trade to extremes. On the basis of formal mathematical reasoning he demonstrated that if a set of hypotheses on international trade were maintained, the result would be *complete* and *absolute* equalization of the remuneration of factors.⁶ The ideological implications of this formal demonstration are noteworthy: acceptance of Samuelson's reasoning would mean that international trade could be said to resolve economic disparities between nations (underdevelopment would be reduced *by means of* world specialization in production).

In later articles, Samuelson no longer maintained the ultimate implications of his hypotheses. His initial argument was kept up, however, by the most ardent partisans of 'comparative advantages' and of free trade as the panacea for remedying inter-country disparities in respect of factors of production and availabilities of resources.

Unfortunately for the defenders of this extreme version of pure international trade theory, some of the assumptions in Samuelson's model are intrinsically fallacious. Gottfried Haberler, champion of free market mechanisms, pointed out that Samuelson included, among the conditions for the validity of his theory, certain unrealistic assumptions, such as homogeneity of production functions in all the countries trading with one another (similar levels of technological know-how, of skills, of climatic, physical and social conditions, etc.), whose non-existence is the very first question arising in the context of inter-country disparities.

⁶ See Paul Samuelson, "International trade and the equalization of factor prices", in *Economic Journal*, June 1948, particularly p. 67.

According to Haberler, therefore, we must come to the conclusion that the Lerner-Samuelson theory, although formally correct, is based on limitations and assumptions so remote from reality that it can hardly be considered a valuable contribution to economic theory.⁷

In short, acceptance of a trend towards absolute equalization of factor remuneration through international trade is not a product of the Ricardian theory of trade. It came into vogue after Samuelson's more extreme (and weaker) assumptions on international trade had gained wide currency in certain academic circles.

Economists of the marxist school also believed in the positive effects of international trade on the expansion of capitalism to the periphery. They amended the Ricardian view, later accepted by the marginalists and neoclassicists, placing emphasis on the actual mechanism of the expansion of capital and of the production system rather than merely on international trade.

In point of fact, marxist theory took full factor mobility at the world level for granted. Marx did not make theoretical analyses of 'underdevelopment', a concept which anyhow did not exist in his time. When he referred to India, in certain passages of his newspaper articles,⁸ he expressed his confidence that the expansion of capital would bring

development to the periphery. Rosa Luxemburgo, more than a half-century later, was still asserting the inevitability of capitalist expansion on a world scale and the consequent industrialization of the countries that formed the 'rearguard of capital'. Hilferding – a contemporary of Rosa – held that differential interest rates would also lead to the export of capital to the periphery, although he could see difficulties in the way of the generalization of wage labour as the basic form of relationship in economic exploitation. Bukharin and Lenin were no exception to the rule: the export of capital was a condition inherent in imperialist expansion.⁹

Nevertheless, by 1920 Lenin had already adopted a different position: "The progressive effects of capitalism, on the contrary, are not to be seen there (in the colonies), despite the infiltration of foreign capital. When the dominant imperialist power needs social support in the colonies, it joins forces, first and foremost, with the ruling classes of the old precapitalist system – the feudal-type landlords, the commercial and money-lending bourgeoisie – against the masses".¹⁰

(b) *CEPAL's ideas*

What were the key ideas on development put forward by CEPAL? (and why did they create such an uproar?)

⁷See Gottfried Haberler, "A survey of the international trade theory", revised and expanded edition, *Special Papers in International Economics*, N° 1, Princeton University, 1961. Haberler refers to A. Lerner, because of his contribution on similar general lines (see A. Lerner, "Factor prices and international trade", in *Económica*, February 1952).

⁸See Marx and Engels, *On Colonialism*, Moscow, Foreign Languages Publishing House, no date.

⁹See Paul Singer, "A divisão internacional do trabalho e empresas multinacionais", CEBRAP (mimeographed text), 1976. For brevity's sake, I have omitted quotations from this essay, pp. 6-11. Singer's study places the thinking of these authors in its proper historical perspective.

¹⁰Lenin, 1920 thesis, in *La Guerra y la Humanidad*, Mexico City, Ediciones Frente Cultural, 1939, as quoted by P. Singer, *op. cit.*, p. 12 (unofficial English translation).

The most important CEPAL study on the relations between centre and periphery, and, therefore, on development and underdevelopment, is the *Economic Survey of Latin America 1949*, published by the United Nations in 1951. Exactly the same theoretical bases for the analysis of Latin American development are to be found in an article previously published by Dr. Raúl Prebisch – unquestionably the outstanding CEPAL economist of the day – under the title “The economic development of Latin America and its principal problems” (E/CN.12/89/Rev.1).¹¹

In these documents, which laid the foundations for what came to be called the CEPAL-Prebisch doctrine, there are two or three basic concepts which, in the context of current economic discussion, were innovative. *In opposition* to the view prevailing in the orthodox-liberal circles which accepted the fundamental premise of market theory relating to the comparative advantages of the international division of labour, Prebisch asserted that economic relations between

¹¹ The analyses contained in the following pages, relating to the 1950s, are based on these and other documents by the CEPAL secretariat or by Prebisch. In the case of the former, the collaboration of economists such as Celso Furtado, Juan Noyola, Regino Botti, and others was of great value; although it is difficult to weigh up individual contributions, since no relevant research exists. Originally issued as a separate document (United Nations publication, Sales N°: 50.II.G.6.2), Prebisch's article was subsequently reprinted in the *Economic Bulletin for Latin America*, vol. VII, N° 1, Santiago, Chile, February 1962, and hereinafter quotations and page numbers will be taken from this reprint. Albert Hirschman called this essay ‘the CEPAL manifesto’. See A. Hirschman, “Ideologies of economic development in Latin America”, in *A Bias for Hope. Essays on Development and Latin America*, Yale University Press, 1971, pp. 280-281 (originally published in 1961).

the centre and the periphery tended to propagate the conditions of underdevelopment and to widen the gap between developed and underdeveloped countries. The invisible hand of the market seemed to Prebisch the wicked step-mother's: instead of correcting inequalities, it aggravated them.

Why is this? Because the central countries appropriate the lion's share of the fruits of technical progress. How? On the basis of evidence presented in United Nations documents that showed a trend towards deterioration of the terms of trade between primary commodities and manufactures, Prebisch lists the factors that cause this structure, from which increasing disparities stem:

- The growth rate of productivity is higher in manufacturing industry than in production of agricultural commodities;
- The increase in productivity should be transferred to the prices of industrial products via the reduction of the value incorporated in each unit produced;
- Nevertheless, as in the industrialized countries there is trade-union pressure to keep up the level of wages, and industrial production is organized in such a way that the oligopolies protect their rates of profit, prices do not decline in proportion to the rise in productivity.¹²

¹² Why did income in the centre increase, paradoxically, more than in the periphery? “During the upswing, part of the profits are absorbed by an increase in wages, occasioned by competition between entrepreneurs and by the pressure of trade unions. When profits have to be reduced during the downswing, the part that had been absorbed by wage increases loses its fluidity, at the centre, by reason of the well-known resistance to a lowering of wages. The pressure then moves towards the periphery, with greater force than would be the case

In other words, what Prebisch called the agents of production —workers and entrepreneurs— in the industrialized countries manage, by virtue of their *politico-organizational* strength, to obstruct the operation of the market, thus producing a specific effect on international trade —the steady deterioration of the terms of trade— and preventing the diffusion of technical progress at the international level. This explains why the price of primary commodities tends to *fall* as a proportion of the price of manufactured products.¹³

The foregoing summary shows that Prebisch started from a fundamental classic assumption. This predicted a relative decline in the international prices of manufactured products, in comparison with those of primary commodities; if such a relative decrease took place, it might be expected to result in a trend towards international equalization of resources (since the main producers of primary commodities are countries with lower income levels). It is in connexion with this point (and not in relation to contemporary neoclassical opinion on world trade) that Prebisch's analysis contrasts with Samuelson's reinterpretation of the theories of Heckscher and Ohlin. It is useful to recall, however, that the starting-point of Prebisch's contributions was not the neoclassical theory of trade.

if, by reason of the limitations of competition, wages and profits in the centre were not rigid. The less income can contract at the centre, the more it must do so at the periphery". See "The economic development of Latin America and its principal problems", *op. cit.*, p. 6.

¹³ "... it follows that the exchange values of manufactured articles, compared with the products of agriculture and of mines, have, as population and industry advance, a certain and decided tendency to fall." J.S. Mill, *Principles of Political Economy*, Ashley Edition, p. 703.

CEPAL's position is clear with respect to the implications of the downward trend of primary commodity prices in conditions where the supply of labour is more plentiful and productivity growth lower than in the developed countries. It means that there is *less capacity for capital accumulation in the periphery* —since for Prebisch saving is primarily dependent on productivity growth— and therefore leads to discussion of the need for a specific industrialization policy to promote accumulation and development.

In the line of argument pursued by CEPAL and by Prebisch, the analysis of the mechanism of exploitation of the periphery by the centre may be felt to require fuller development, but it cannot be said that their reasoning neglects the essential role of accumulation in market economies, or disregards the specific historical and social conditions underlying accumulation in capitalist countries: greater capacity to fight for their own class interests on the part of trade unions in industrialized countries, and the political and organizational strength of the big capitalist firms to resist any fall in rates of profit, constitute an obstacle to the automatic transfer of the gains from rising productivity which was taken for granted in the theory of international trade.

The political and structural postulates of the CEPAL approach may be open to debate in terms of an economic analysis giving more weight to 'the logic of capital', as it is now fashionable to say in leftist economic circles in Europe. But it would not be satisfactory to affirm this in the abstract, without considering the concrete conditions of social exploitation; and it seems to me wrong to suppose that CEPAL somehow or other made the mistake of thinking that

exploitation on the international market occurs through inequalities in the terms of trade, as if the assumption were that exploitation is merely, or principally, commercial.

(c) *Critical reactions*

The CEPAL theses on international trade and development were not accepted without opposition – far from it. The more orthodox sectors of economic thought (both liberal and marxist) were invariably critical (from opposite points of view) of what came to be known as ‘CEPAL thinking’. For the zealous defenders of the idea that the ‘logic of the market’ is the best mechanism to promote *true* development, CEPAL always represented the Trojan horse of leftism. Behind the cautious recommendations concerning the necessity for State intervention to correct distortions, the defence of protectionist policies, the insistence on the structural nature of inflation in Latin America, etc., orthodox liberals always saw the risk of bureaucratic socialism.

Later on, with no less fervour, the theorists of the extreme left ‘unmasked’ the class element in CEPAL’s formulations, alleging that they did not expose the mechanisms of social and economic exploitation that keep the working-class subordinated to the bourgeoisie and the latter to the imperialist centres. There was even a time –after some of the communist and populist parties had changed their policy to chime in with CEPAL’s pleas for industrialization and the strengthening of internal centres of decision-making, without too closely scrutinizing the ruling-class character of the latter– when the extreme left almost came to believe that were it not for the

existence of CEPAL, of the communist parties and of populism, the long-awaited revolution would already have liberated the peoples of Latin America from the yoke of class domination and the shackles of imperialism. Thus, the vision of CEPAL was treated as if it were a way to put blinkers on the consciousness of the peoples, showing them just a straight path ahead towards a prosperous future through industrialization and the strengthening of the State.

How much weight is to be attached to this criticism?

As we have seen, the Prebisch-CEPAL theory argues that technological progress, in combination with *specific social conditions*, produces different effects in the centre and in the periphery. Accordingly, there seems no reason to accuse it of oversimplification in this respect. But there are some points that its explanatory system fails to cover. Why do not employers in the periphery retain the gains that result from rising productivity in the agricultural sector by themselves appropriating those deriving from the relative differences between their reduced production costs and the limited capacity to exert pressure (low level of development of the class struggle) of workers in the peripheral countries?

There is a hiatus in the explanation of the mechanism by which gains are transferred from the periphery to the centre, and the notion of the ‘insufficient dynamism’ of peripheral capitalism obscures rather than clarifies the issue. Despite CEPAL’s attempts to work out an adequate body of hypotheses explaining the world economic situation in the 1950s, what is lacking is an analysis of the international relations of exploitation –colonialism and imperialism– in order to give more consistency and

lucidity to the critical position initially assumed by CEPAL.

From CEPAL's analysis it follows that the differences between centre and periphery in the advance of the productive forces and the workers' capacity for struggle mean that the periphery's capacity for accumulation is less. In these conditions, the inability of local producers to compete in business with the foreign capitalists who handle international trading and the 'propensity to consumption' of the local élites still further weaken the capital accumulation process. This explanation is not convincing, although understandable in view of the smallness of the basis for accumulation then at the disposal of the peripheral economies. Personal consumption is insignificant in proportion to company reinvestments, which, during the phase of concentrated effort to industrialize, from the end of the Second World War to the 1960s, took the form of constant feedback of profits. This shows that the part played by personal consumption in the explanation of capitalist development is fairly limited.

This flaw in the CEPAL theory has been the object of both distortions and criticisms. From the point of view of explaining the relation between development and underdevelopment, the latter are not unjustified, as I shall indicate in a moment. But in so far as the CEPAL theses affirm the existence of an inherent logic in the international trade process which results in terms of trade disadvantageous to the periphery, they are strong enough to invalidate the theories which had previously held sway.

Why did the CEPAL theses concerning international trade hold their ground? Because, even without the assumption that the terms of trade *had deteriorated*, there would have been

'exploitation' due to unequal distribution of gains in international trade.

United Nations statistics showed that from 1876-1880 up to 1946-1947, there had been a steady trend towards deterioration of the terms of trade. To support his argument, Prebisch reproduced in his article on "The economic development of Latin America and its principal problems" the data given in a United Nations document of 1949 on "Post-War Price Relations" in world trade. Without going into so much explanatory detail as the CEPAL documents and Prebisch's article, Hans Singer had already drawn attention to this tendency.¹⁴

The statistical basis for the argument was considered insufficient by Haberler and others. The United Nations document referred to United Kingdom trade, and the lack of comparability between the United Kingdom's manufactures and those of Germany, Japan, the United States and other economies may have distorted the results. Controversy is still being unremittingly waged with respect to trade data; but even if it is admitted that for some time United Kingdom prices were affected by low productivity and by over-valuation of the pound sterling, permanent capacity to export depends upon capacity to keep prices roughly within the given exogenous international price margins. In cases such as these, the law of a single world market price must be maintained, at least approximately, for homogeneous products.

¹⁴ Hans Singer, "The distribution of gains between investing and borrowing countries", in *American Economic Review*, May 1959, pp. 472-499. The controversy on the terms of trade continued for some time. Obviously, there are cyclical variations by which the terms of trade are affected. Data showing in detail the consequences of the trend towards deteriora-

II

Criticisms of CEPAL's theories and alternative theories proposed

(a) *The 'orthodox' line*

It was not long, however, before CEPAL's formulations were rebutted by the representatives of orthodoxy. Professor Gottfried Haberler, of Harvard, categorically denied that economists were "in possession of any law which would enable them to predict a price trend for or against primary producers of raw materials."¹⁵ He recognized the validity of a rough generalization concerning short-term variations to the disadvantage of underdeveloped countries, since during phases of world economic depres-

tion were published by CEPAL in the *Economic Survey of Latin America 1949*. It should be stated that the idea of a *permanent* deterioration in the terms of trade does not play an essential role in CEPAL's more fundamental views on the blockage in the transfer of the fruits of technical progress. CEPAL suggested that under-development could be overcome only by industrialization, inasmuch as this could increase rural migration, reducing the burden of the agricultural labour surplus, facilitating the technicalization of agriculture and affecting labour costs through a rise in wage levels. Taken together, these factors imply high prices for primary commodities, and better chances of transfer of technological progress from the centre to the periphery.

¹⁵ As I said before, Prebisch did not postulate any law concerning an inevitable worsening of the terms of trade. He simply tried to explain certain empirical findings by proposing an interpretative hypothesis and suggested some practical measures for coping with the difficult economic situation in the peripheral countries. Haberler misinterpreted Prebisch's ideas from the very outset of his critique.

sion the relative prices of primary products tended to worsen; but he denied the possibility of confirming a persistent downward trend. He believed that the extent of the deterioration of the terms of trade for primary-exporter countries had been exaggerated. His advice to the underdeveloped countries was to learn to live with their hardships, and to console themselves with the reflection that the rich countries had their troubles too...¹⁶

Notwithstanding the bias of Haberler's conclusions, he does put forward one pertinent argument, if in mistaken terms, when he touches on an important—and controversial—point in the CEPAL theory: the inevitability of the gap between centre and periphery. Haberler argues that a deterioration of a country's

¹⁶ The most consistent of the criticisms disputing the existence of such a trend—setting aside the endless methodological objections relating to *base years*, countries of reference, reliability of data, etc.—was that of Gottfried Haberler in "The terms of trade and economic development", H.S. Ellis, *El desarrollo económico y América Latina*, Mexico City, Fondo de Cultura Económica, 1957, pp. 325-351. (For the passage quoted above, see p. 349.) His basic argument is that the relation between commodity prices is not a satisfactory indicator for measuring the terms of trade. It would be better to analyse the "single-factor terms of trade", examining separately the effects of changes in productivity in one given export commodity on the international price of the product. A *fall* in relative prices might occur that was less than the reduction of costs induced by a technological change.

terms of trade on the international market within a given period *does not signify* that by the end of the period that country's economic welfare will have been unfavourably affected (p. 326). To demonstrate his argument, he makes play with the idea of 'the single-factor terms of trade', instead of taking the value of commodity trade as the basis for his analysis. In this way –without refuting the Prebisch-CEPAL thesis– he draws attention to the dynamism which is necessary for a clear understanding of economic development processes. In other words: there may be an unequal distribution of gains in favour of the centre via foreign trade, and *at the same time*, as a result of increases in productivity, there may –in theory– be economic growth and even an improvement in the level of living in the periphery. Thus the gap between developed and developing countries may widen while simultaneously levels of living in some of the latter may be rising.

Haberler also tried to undermine the foundations of CEPAL's theory and *deny* the validity of the idea that it is through the defence of wage and profit levels in the industrialized countries that the transfer of the benefits from technological progress is blocked. He argued that competition between capitalists and the breakdown of the United Kingdom's monopoly of technological progress invalidated CEPAL's position. According to him, the primary producers are perfectly capable of looking after themselves; those who suffer are the fixed-income groups in the developed countries (!).¹⁷ Similarly, he criticized interpre-

tations of the expected effects of Engel's Law on international trade, stressed more by Singer than by CEPAL. Perhaps, he argued, this law might affect food producers, but it would be incorrect to extend its implications to primary producers as a whole, since production of minerals, for example, would be unaffected by it.

Despite their conservative bases, and the misleading interpretation of Prebisch's views, Haberler's arguments also indicate an important lacuna in the early work of CEPAL: the lack of a more detailed analysis of the role and nature of economic cycles, and the distinction between such cycles and tendencies towards constant deterioration. Later on, in the works of succeeding writers, the effects of recessions were taken as the expression of irreversible trends. This conception led to an assumption of continuous and growing deterioration, not only in the relation between developed and underdeveloped countries, but actually in the underdevelopment situation itself.

In a sense, the 'catastrophist' outlook, which later culminated in the formulation of theories of 'the development of underdevelopment', was latent in the CEPAL interpretation itself. It would be incorrect, however, to suppose

effect, Bettelheim rejects the idea that the 'rate of exploitation' is higher in poor countries. By definition (if one considers the relation between the mass of surplus value generated and variable capital), the greater the development of the productive forces, the *higher* will be the rate of exploitation. However, the theoretical model put forward by these authors is not adequate for discussion of the question of *poverty*, since there can be both *more intensive exploitation* and an *improved level of living* at the same time. Failure to clarify the terms of the debate often confuses the issue in discussion of these questions.

¹⁷ Haberler's argument –although specious as regards the victims of exploitation (fixed-income groups)– has something in common with Bettelheim's criticisms of Emmanuel. In

that the emphasis in CEPAL's arguments on the deficiencies of the international market mechanism gave rise to mainly static or catastrophic formulations. Such concepts were implicit in some of CEPAL's theses, but not so much literally as potentially; they would only have appeared if the theoretical field to which they pertained had been developed to the full. The 1949 *Survey* incorporated the idea of cycles, and asserted that the prices of manufactured products would fall *less* during a recession than those of primary commodities, while at the end of boom periods the latter would rise faster; it was the final *result* that would be negative for primary products. It would be wrong, then, to say—as Haberler implied—that CEPAL's diagnosis was based on a purely static conception of the relations between centre and periphery.

Furthermore, in his *economic policy*, Prebisch vigorously defended the need to create conditions which might favour the reduction of the gap between centre and periphery. The theoretical argument, however, left room for ambiguous interpretations, and these were in fact the basis of Haberler's critique. Other economists did the same as Haberler: they took a step backwards in the debate. Outstanding among these was Professor Jacob Viner.¹⁸

To quote his words: "All that I find in Prebisch's studies and in other literature along similar lines emanating from

¹⁸ See the series of lectures given by Jacob Viner, of Princeton University, in Rio de Janeiro, at the invitation of the Fundação Getúlio Vargas, during the months of July and August 1950. They were published in Portuguese, in June 1951, in the *Revista Brasileira de Economia*, Year 5, N° 2, and in English in *International Trade and Economic Development*, New York, Free Press, 1952.

the United Nations and elsewhere is the dogmatic identification of agriculture with poverty, and the explanation of agriculture poverty by inherent natural historical laws by virtue of which agricultural products tend to exchange on ever-deteriorating terms for manufactures, technological progress tends to confine its blessings to manufacturing industries, and agricultural populations do not get the benefit of technological progress in manufactures even as purchasers, because the prices of manufactured products do not fall with the decline in their real costs".¹⁹

And the professor adds: "This is no more nor less than mistaking a simple conjuncture for non-existent tendential laws".²⁰

Since he saw nothing in Prebisch's reasoning but what has just been stated (as if that itself did not call for closer attention, in view of the United Nations data, and did not conduce to more complete reconsideration of international trade theory), Viner went on to 'demonstrate' that the real problem was not *agriculture* as such, nor *industrialization* as such, but 'poverty and backwardness'. How could poverty and backwardness logically be adduced as their own causes? In any event, he was mistaken in his presentation of Prebisch's reasoning, since the latter was based on the differential rates of *productivity* growth (or of the development of the forces of production) in developed and underdeveloped countries. Agriculture was offered as an example to bring out the fact that, as a general rule, in Latin America agricul-

¹⁹ Viner, *op. cit.*, p. 44.

²⁰ It is hard to understand how Viner can assert that a period of over 70 years—like that considered in the United Nations trade statistics—is a 'short-term period'.

tural productivity was low in comparison with that of the urban industrial sector, and that *therefore* poverty was greater in rural areas. And as no-one who knew anything about the Argentinian economy could fail to realize, Prebisch always maintained that higher agricultural productivity was a useful instrument for raising levels of living.

On a purely technical plane, however, the final evidence that Viner failed to grasp the point of Prebisch's main argument is to be found in the following assertion: "It is claimed also that there is a historical 'law' of more rapid technological progress in manufacturing than in agriculture. If this were true, and manifested itself in a relative decline in real cost of production of manufactures, it would tend to result in a favourable and not in an unfavourable movement in relation to prices for agricultural products".²¹

As has already been shown, Prebisch had formulated his criticism precisely because international trade impeded the operation of this classic mechanism.

(b) *The 'heterodox' liberals*

For a better understanding of some of the criticisms levelled at CEPAL, it is helpful to bring into focus the separation between a possible theoretical bias in CEPAL's initial formulations (which contained a slightly static view of the nature of the gap between centre and periphery), and the proposals for practical action to narrow that gap.

It should be borne in mind that (discounting the marxist analysis) the economic theories then current with regard to the best way of breaking

through the iron circle of underdevelopment placed paramount emphasis on capital formation – capital being thought of as a 'factor' depending upon two mechanisms:

- foreign investment
- 'surplus'-generating exports.

Where exports and imports were concerned, stress was laid on the idea that even without industrialization the periphery could benefit from the centre's progress, because there were equalizing mechanisms in the international trading system. As to foreign investment, even the most orthodox advocates of its advantages recognized that it was apt to be concentrated in the colonial-exporter sectors, and that the narrow limits of the domestic market were an obstacle to the attraction of industrial investments to developing countries.

Thus, the prevailing development theories were either based on the advantages of international trade or, in one way or another, ended by accepting the vicious circle of poverty as a fundamental handicap of the peripheral economies.

The most prestigious critical formulation on underdevelopment from liberal quarters in the early fifties was produced by a disciple of Wicksell who had broken with orthodoxy: Gunnar Myrdal. With the keen critical perception which he had developed in his masterly work on the American negroes, Myrdal, as from the time of *An American Dilemma*, had incorporated a 'structural' perspective into his thinking. His analyses steadily gained in political density, as attested by *The Political Element in the Development of Economic Theory*, published in London in 1953. But when he worked out his hypothesis on 'circular and cumulative causation' – which

²¹ See *International Trade and Economic Development*, *op. cit.*, p. 144.

provided more sophisticated theoretical backing and added critical elements from political theory to the old idea of the vicious circle of poverty – Myrdal was emphasizing obstacles rather than possibilities of development.²²

In the Latin American debate – which bore on a more urbanized region, less essential to capitalist development in the centre – the major academic argument related to the circularity of poverty, due to the restricted size of the markets. The weight of extra-economic factors was less visible and had less impact on economic theory.

Ragnar Nurkse, in lectures he gave in Rio de Janeiro in July-August 1951, put the matter clearly: the limited size of domestic markets was the greatest obstacle to development.²³

How is this barrier to be broken down?

Nurkse's answer is also clear. In situations bearing the mark of the vicious circle of poverty, reliance cannot be placed on the automatic operation of Say's Law: it must be applied so as to produce a chain reaction. In a comment on an earlier article by Rosenstein-Rodan about the industrialization of Eastern and South-Eastern Europe, which showed the limitations of thinking of supply as *necessarily* complementary between the sectors of production, Nurkse makes the following diagnosis:

²² For the purposes of the present analysis, the most complete formulation of the theory of circular and cumulative causation is to be found in Gunnar Myrdal, *Economic Theory and Under-Developed Regions*, London, Gerald Duckworth and Company, 1957 (published in the United States under the title *Rich Lands and Poor*, New York, Harper & Row, 1958), especially chapters 2 and 11. (The book is a revised version of lectures delivered in 1955 and originally published in 1956.)

²³ Nurkse, *op. cit.*, chapter I.

- only a rise in productivity really generates an expansion of the market (therefore, monetary inflows simply produce inflation, and exports in themselves do not resolve but reproduce the vicious circle);
- an isolated rise in productivity, however, is not enough. Only the chain reaction and the basic complementarity produced by a wave of capital investment in several industries can break through the circle;
- Schumpeter's theory of the innovator-entrepreneur and the successive waves of entrepreneurial action would give sociological and economic support to the theory of the initial push.

Thus there emerged a neat formulation of the so-called 'theory of balanced development', based on the amplification of the total size of the market and provision of increased incentives to industrial investment in general.²⁴

²⁴ Several authors follow the line of the theory of 'balanced development'. Rosenstein-Rodan, for example, after repudiating the advantages of autarkic national development and proposing a style of development based on substantial international investment and loans, was also to defend a growth strategy based on large-scale planning for different and complementary industries. Through this mechanism, the industrialization of the periphery would have the advantage of absorbing the rural population, instead of driving them to emigrate and thereby swell the flow of capital in the already-developed countries. See his article "Problems of industrialization of Eastern and South-Eastern Europe", in A.N. Agarwala and P.S. Singh, *The Economics of Underdevelopment*, Oxford University Press, 1943, (New York, 1963), pp. 245-255. In another paper, he redefines this view and defends the advantages of concentrating efforts and giving a 'big push' to backward economies through investment on a large scale. See Rosenstein-Rodan, "Notas sobre la teoría del gran impulso", in Ellis, *op. cit.*, pp. 67-93.

The discussion —whose ramifications cannot be traced in this short paper— of what was meant by ‘a large market’, in relation to the size of the population and geographical space, was very brisk in the early 1950s.²⁵ Not all economists in the developed countries agreed with Nurkse. Although, as we shall see below, he had placed more emphasis on the need for foreign capital than on domestic saving to increase productivity *per capita* and break through the iron circle of backwardness, he worked out, though the theory of ‘balanced development’, a line of thought which *favoured* industrialization.

Albert Hirschman, with his characteristic sensitivity of perception, and always alert to the dialectic of the unexpected, began by proposing, in a lecture given in 1954, a different development strategy. Instead of adopting the ‘balanced growth’ hypothesis, with its obvious concern for capital requirements, Hirschman pointed out that disequilibria sometimes stimulated corrective reactions. He suggested, too,

²⁵ An interesting offshoot of this discussion is to be found in an anti-CEPAL author, Alexandro Kafka. See his article “Algunas reflexiones sobre la interpretación teórica del desarrollo económico de América Latina”, in H.S. Ellis, *op. cit.*, pp. 3-35. Kafka discusses market size, in terms both of the size of countries and of their natural resources, but does not underestimate the effects of international trade on development, on condition that there is the ‘entrepreneurial capacity’ to take advantage of them. Although he is in this respect close to Nurkse, Kafka’s argument is interesting in that he shows the *advantages* of disequilibrium —including the disequilibria derived from concentration of income—in so far as they act as a spur to development. This type of thinking had a decisive influence on theories of ‘accelerated growth’ between 1965 and 1975.

that a chain of technological demands might call for new investments; so that it is important to consider the links which precede investment and those which follow it. Later, in 1958, Hirschman published *Strategies of Economic Development*, in which he gave theoretical consistency to his opinions and amplified his hypotheses on the anterior and posterior links as key factors in the development process. At the same time, his book gave a reminder of certain important and unrecognised possibilities for development and innovations in Latin America.

Albert Hirschman was not an opponent of CEPAL’s assertions concerning industrialization, but rather a supporter with a critical mind. He showed that in the capital accumulation process, internal inventive effort is of more value for development strategies than incessant complaints about the shortage of capital. Since his book was written during the second half of the 1950s, Hirschman may be regarded as a pioneer among non-Latin American economists in defending the advantages of planning and of State intervention in the economy. Some of his interpretations, such as those bearing on inflation and balance-of-payments problems, are close to CEPAL’s structuralist conceptions, although they were propounded independently of these.

In any event, neither Nurkse nor Hirschman was as much concerned with the ‘automatic’ effects of the theory of comparative advantages as with the real problems of development: how to accumulate or more efficiently utilize the surplus in order to break down —through industrialization— the barriers of backwardness and underdevelopment.

(c) *The marxists*

It was on the basis of Lenin's second version of the effects of imperialism that marxist economists contemporary with CEPAL's early formulations propounded their systems of ideas. Dobb follows the classic marxist line of reasoning: capital expansion will occur on the periphery because the rise in the organic composition of capital in the industrialized countries accelerates the downward trend of the profit rate: accordingly, the colonial countries, where there is cheap and abundant labour and a lower organic composition of capital, will be likely to attract foreign investors.²⁶ Baran, who published an article in 1952 on "An interpretation of economic backwardness", takes up the legacy of Lenin's second version of centre-periphery relations, but without paying much attention to orthodox marxist tradition (followed in part by Dobb), in which industrialization of the periphery is seen as a natural consequence of world capitalist expansion.

Baran, in effect, accepts the thesis of the narrow limits of the market as an obstacle to development: "The shortage or investible funds and the lack of investment opportunities represent two aspects of the same problem. A great number of investment projects, unprofit-

²⁶ See Maurice Dobb, *Political Economy and Capitalism* (1937), chapter VII. Paul Singer points out the contradictory way in which Dobb develops his ideas, inasmuch as, having shown that investment would be placed in the periphery as a means of sidestepping the downward trend of the profit rate, he says that industrial production in the colonies will complement that of the metropolis rather than competing with it (*op. cit.*). (In Spanish version —*Economía política y capitalismo*, Mexico City, Fondo de Cultura Económica, 1945—, p. 16.)

able under prevailing conditions, could be most promising in a general environment of economic expansion".²⁷ Consequently, he becomes an advocate of industrialization by way of the same argument that it is essential to increase productivity and that a developed agriculture calls for industrial development. He analyses and endorses protectionist programmes, tax reforms, etc., but subordinates them to a political analysis of the prevailing power structures. Without radical changes in the latter, any reform programme is an illusion:

"For backward countries to enter the road of economic growth and social progress, the political framework of their existence has to be drastically revamped. The alliance between feudal landlords, industrial royalties, and the capitalist middle-classes has to be broken" (*ibid.*, p. 91).

Later, in a book published in 1957, Baran reformulates his point of view. He maintains his criticism of political conditions which are unfavourable to development, but refutes Nurkse and Hans Singer, replacing the idea of the absence of capital funds (narrowness of the market) by that of inadequate use of the 'economic surplus' in underdeveloped countries, and setting limits to the hypotheses on the deterioration of the terms of trade, inasmuch as this would not affect all underdeveloped countries in the same way, and because many of them would have little need of foreign exchange.²⁸

²⁷ Paul Baran, "On the political economy of backwardness", in Agarwala and Singh, *op. cit.*, p. 83.

²⁸ Baran's book, *The Political Economy of Growth*, New York, Monthly Review Press,

Introducing the idea of an 'economic surplus', Baran shows that the use of it is socially irrational and that in any circumstances its efficient application would resolve the problem of the alleged shortage of capital. Foreign investment does not rectify but rather aggravates distortions in the use of the surplus.

Curiously enough, however, Baran does not find a solution for a manifest contradiction in his own exposition:

- he admits and develops the marxist belief in the dynamic nature of capitalism and the role of industrialization in promoting development (denying the validity of the mechanistic explanation according to which it is isolated foreign investments—in highways and energy, for example—that trigger development, since for Baran, the industrializing process starts with local investments);
- in consequence, he accepts the theory of the 'cumulative effect of investments' in the style of Rosenstein-Rodan (see *The Political Economy of Growth, op. cit.*, chapter VII);
- he remodels the argument, so as to emphasize domestic investment and the social division of labour;
- but he does not lay sufficient stress on the development of the productive forces (technological progress).

For this last reason, he minimizes the importance of balance-of-payments restrictions and the deterioration of the terms of trade in the industrialization

process. A fully explicit exposition of his argument, in order to be coherent, would have to lead up to the idea of an autochthonous technology, —which it does not— or to his taking more seriously the effects of the deterioration of the terms of trade on industrial development possibilities.

But instead of doing this, Baran concentrates his criticism on the propensity to consumption on the part of the upper classes, at the expense of *real investments* (expansion of the means of production). He notes a very important aspect of the structure of underdevelopment: namely, that only a small proportion of industrial investment is spent inside an underdeveloped country, because the bulk of it is eaten up by the purchase of machinery and licences abroad, but he does *not* give this argument its due importance. Thus, he puts forward a theory which accepts that "investment tends to become self-generating, and the lack of it self-stagnating" (chapter VII), and sees the irrational use of the surplus as an obstacle to development. All this he alleges would lead the peripheral countries to economic stagnation, from which their only way out would be through political channels.

Thus, while the more classic marxist trend diverges from CEPAL's analysis in that it *did not see* the scarcity of capital as a problem, the more political Leninist tradition, accepted *ipso facto* by Baran, perceived that there was a problem which did seem to lie in the market and the insufficient dynamism of capital funds, but, in contrast with Prebisch, did not believe that reforms, increased productivity, or bigger inflows of foreign capital could drastically alter the prevailing conditions of underdevelopment. Only a socialist revolution would liberate

1957, is a curious variant of the American neomarxist position on development questions. Baran systematically criticizes the solution proposed by Nurkse and accepted, with some reservations, by Prebisch, with regard to the role of foreign investment (see chapters VI and VII).

the productive forces and make it possible to raise the level of living of the masses through a more rational use of the available surplus.

More recently, the CEPAL theories have been re-appraised by marxist economists. Arghiri Emmanuel, twenty years after Prebisch, proposed a theory of 'unequal exchange'; only instead of finding the causes of inequality, as CEPAL does, in the production system and the special features of the organization of enterprises and of the class struggle, Emmanuel emphasized the inequalities *at the level of trade transactions*.

Hence, in recent times, has stemmed a whole new branch of academic marxist debate concerning 'exploitation' in international trade and the differential rates of organic composition of capital in the centre and the periphery. Charles

Bettelheim criticizes Emmanuel's views—rightly, in my opinion, where this point is concerned—showing that 'exploitation' in marxist theory refers to relations *between* classes (capital itself, in this conception, is a *social relation of exploitation*), and that it must not be forgotten that the unequal rates of organic composition of capital (i.e., the proportions of constant capital—machinery and raw materials—to variable capital, that is, wages) in different branches of the economy or in different national economies are an effect of the unequal *development of the productive forces*. The latter, in its turn, depends on the unequal social and material conditions of production. Thus, it seems inadequate to speak in terms of exploitation at the level of world trade without specifying the mechanisms of class exploitation which permit it.²⁹

III

CEPAL's ideas in practice

It is interesting to note that although Prebisch and CEPAL based their reasoning on the imperative necessity of increasing productivity *per capita* and at the same time promoting capital accumulation, in order to raise the level of well-being of the masses, this policy was severely criticized by left and right alike. The left disapproved because, once again, there was no *explicit account* of the mechanisms by which the two goals—capital accumulation and improvement of the people's levels of living—would be made compatible; the right, because it saw in the Latin American Manifesto (as the 1950 document was called by

Hirschman) nothing more than an accusation against the rich countries and a zeal for international redistribution which failed to take seriously the necessity of promoting capital formation and productivity growth.

²⁹ More recently, African and European economists have developed a theory known as that of 'l'échange inégal'; taking into account the effects of capitalist development on a world scale (as does for example, Samir Amin), they propose a scheme of the same type, but formally marshalling the causes of inequality on *opposite* lines. The starting-point is that *it is because the industries of the centre are monopolistic that their prices fall and therefore the*

Nevertheless, Prebisch was explicit. He showed that:

- international trade should play an active part in assisting Latin American growth (see his article on "The economic development of Latin America and its principal problems", *op. cit.*, p. 2);
- an increase in productivity was indispensable;
- without accumulation there would be no development;
- this process, however, should emphatically not be brought about through the restriction of popular consumption, which was already too low.

Let me quote here some extracts from the above-mentioned article:

"Nevertheless, it does not appear essential to restrict the individual consumption of the bulk of the population, which, on the whole, is too low, in order to accumulate the capital required for industrialization and for the technical

workers can obtain higher wages. Cf., Samir Amin, *Le développement inégal*, Paris, Editions de Minuit, 1973. The basis of Amin's theory can be found in his book *L'accumulation à l'échelle mondiale*, Paris, Editions Anthropos, 1970. Apart from Amin, several other economists have renewed the attack on the theory of the international division of labour and have taken up CEPAL's theme again (although without knowing all the texts written twenty years before by Prebisch, Furtado, and others). See A. Emmanuel, *L'échange inégal*, Paris, François Maspéro, 1972. Reacting against all these currents, from CEPAL to the 'unequal exchange' theorists, Christian Palloix criticizes them for ignoring the internal development of the productive forces of the periphery. Yet he himself overlooks the 'dependency theories' and fails to make a link between internal reproduction and the expansion of international monetary capital. See Christian Palloix, *L'économie mondiale capitaliste*, Paris, François Maspéro, 1971.

improvement of agriculture" (p. 3). Again, "if productivity in agriculture can be increased by technical progress and if, at the same time, real wages can be raised by industrialization and adequate social legislation, the disequilibrium between incomes at the centres and the periphery can be gradually corrected without detriment to that essential economic activity (primary exports)" (p. 3). Prebisch goes so far as to set limits to industrialization (and, consequently, to protectionism) in relation to those objectives: "If the aim is to increase the measurable well-being of the masses, the limits beyond which more intensive industrialization might mean a decrease in productivity must be borne in mind" (p. 3).

(a) *Development policies*

To an even greater extent than on the plane of theoretical discussion, the CEPAL propositions laid themselves open to criticism when they went on to support specific policies.³⁰ Firstly, because they placed the emphasis on structural disequilibria, and economists who were more concerned with the short term or with the monetary aspects of development saw in them a risk of anticapitalist rhetoric. The discussion on inflation (upon which I shall not enter) is a striking example of this dialogue between the deaf.

³⁰ The best discussion of CEPAL's development strategy is to be found in Albert Hirschman, "Ideologies of Economic Development in Latin America", in *A Bias for Hope* (*op. cit.*). This essay and another in the same book, "The political economy of import-substituting industrialization in Latin America", are of basic importance for understanding the history of ideas on development and of the process itself.

With respect to basic objectives and the instruments of economic policy whereby they might be attained, little change took place in CEPAL's position during the 1950s. It continued to advocate:

- industrialization and 'healthy' protectionism;
- adequate foreign currency allocation policy;
- programming of import substitution;
- special care not to allow wages to fall even lower in the course of the industrialization process and to prevent a reduction of the consumption capacity of the masses.

These were obviously burning questions. CEPAL trod carefully, up to the end of the 1950s, in proposing socially and politically thorny measures, such as land reform and social equalization policies. Even so, to speak of exchange controls or of investment *programming* seemed, in conservative eyes, a sort of heresy.

Apart from the declarations regarding the level of living of the masses, in documents such as those quoted above, the emphasis of the CEPAL policies was placed on the need for 'programmed' industrialization, accompanied by the essential exchange control mechanisms. The implementation of such policies implied, however, defending the need to shift the centres of decision-making to the periphery and, consequently, strengthening the decision-making and regulatory capacity of the State. So it is not difficult to understand the reason for the liberal-conservative reaction *vis-à-vis* CEPAL. Its ideas, even if they did not exacerbate the 'social question', were disturbing.

In this context, it is odd that on the purely ideological level, in so far as the formulators of propositions inspired by

marxist thinking also criticized the assumed existence of a 'feudal-imperialist alliance', there was a measure of concord between them and some of CEPAL's views. The language used was different, and so were the bases on which the interpretation was founded, but for both currents of thought *the outside world* was public enemy number one, and both coincided in the belief that without an internal effort to remove 'obstacles to development'—those represented by the traditional sectors—there would be no improvement in the level of living of the masses. These points of agreement were what made CEPAL thinking slightly 'pink'.

Prebisch and CEPAL, as well as the representatives of this school of thought in the individual countries—the shining example was that of Furtado and the Superintendência do Desenvolvimento Econômico do Nordeste (SUDENE)—, stood firm with regard to the need for industrialization and planning. And they held fast to the objective of increasing the well-being of the masses.³¹ They did not, however, draw up specific policies to that end. Nor must it be supposed that they defended protectionism at all costs; Prebisch always upheld the need for a certain amount of competition. His distrust of Soviet-style State control even led him to wonder whether the undeniable successes of the Soviet economy—which he found dazzling—were not due more to the expansion of the educational system and to social mobility than to over-centralization.³²

³¹ Significant in this connexion is a lecture by Prebisch on economic planning, published in *Panorama Económico*, N° 231, Santiago, Chile, Editorial Universitaria, 1962, in which he asserted that the aim was to use planning as a means of redistributing income, once it had increased, to the benefit of the masses (p. 149).

³² *Ibidem*, p. 150.

Later, at the turn of the decade, CEPAL insisted on the importance of economic integration between countries and incorporated the idea into its fight for industrialization and economic programming. It proposed and collaborated in the formation of Latin American 'common markets': the Latin American Free Trade Association (LAFTA) and the Central American Common Market. It is plain that underlying these efforts was still the same idea of the narrowness of the market—the pursuit of the desired scale of investment—and the political notion that by means of 'blocs' it might perhaps be easier to put up some opposition to the interests of the centre.

In the earliest CEPAL documents technological dependency was taken for granted as a characteristic of underdevelopment. Nevertheless, there is a broad area of indecision in CEPAL's initial thinking on development: it embraces policy relating to foreign capital, and the explanation of the nature of the proposed accumulation.

Once it is admitted that capitalist development depends upon the development of the forces of production (on technical progress not in the *abstract* but *incorporated* into social production), and that the latter depends and in its turn has an effect upon both the social (and international) division of labour and the way in which exploitation occurs (accumulation), the following questions become impossible to shirk.³³

³³ Prebisch never accepted the 'populist' theories on the evils of technical progress. Nevertheless, ever since 1952 he has been uttering warnings on the employment problem and the necessity of adapting technology to local socio-economic conditions. His study on "Theoretical and practical problems of economic growth" (E/CN.12/221) is extremely

- How to 'incorporate' technical progress: by importing technology, through autochthonous technological development, or by means of some kind of combination of the two;³⁴
- How to ensure a process of internal division of labour which would be favourable to capital accumulation;
- How to justify the proposed pattern of accumulation given the recognized difficulties in the way of accumulation in a context of poverty. *Explicit* income distribution and foreign investment policies were needed to facilitate the capital formation process;
- How to expand State participation in the economy—directly and through taxation—to increase the chances of industrialization.

The last question, as I have already said, was left in the shade in the most important texts, the implied objective being vigorously maintained as such, but without any explicit indication—for obvious reasons in the case of a United Nations agency often dependent upon somewhat unprogressive governments—of how it might be attained.

Some of the other questions, however, entailed a discussion of the role of foreign capital which continued until the

acute and up-to-date on this point. See particularly pp. 60 to 63 (English version, mimeographed only, May 1951. United Nations publication, Sales N°: 52.II.G.1, September 1952, in Spanish only.).

³⁴ It should be repeated, however, that, since the 1949 study, Prebisch has always borne in mind that in order to change the centre-periphery relationship, technology would have to be transferred, but with due regard to its adaptation in view of unemployment problems, and that industrialization should be undertaken, but *without aiming at self-sufficiency*.

end of the 1950s, but arrived at no firm conclusions.

In Prebisch's 1950 article, the prescription for capital accumulation is as follows:

"It does not appear essential to restrict the individual consumption of the bulk of the population, which, on the whole, is too low, in order to accumulate the capital required for industrialization and for the technical improvement of agriculture. An immediate increase in productivity per man could be brought about by *well-directed* foreign investment" (the italics are mine), "added to present savings. Once this initial improvement has been accomplished, a considerable part of the increased production can be devoted to capital formation rather than to inopportune consumption".³⁵

Prebisch's realism led him to take a cautious view of the contribution that could be made by foreign capital. In the initial formulations of his doctrine, this appears as a stopgap resource. Domestic capital formation must be increased in order to improve productivity, and the State is the agent of the acceleration of this process. Since, however, distortions exist (inflation, high propensity to consumption, etc.), it will be necessary to resort to foreign capital. As early as 1952 Prebisch drew attention to a trend whose implications were not followed up again until the 1960s: the incipient formation of a new market for goods produced through foreign investment, which was *internal*.³⁶ He criticized

³⁵ R. Prebisch, *op. cit.* p. 3.

³⁶ See Raúl Prebisch, "Theoretical and practical problems of economic growth", *op. cit.*, p. 11: "Foreign investments are now preferentially called upon to develop domestic

foreign capital, however, for having been "slow in responding to this new trend". In this frame of mind, he underlined the role of foreign capital in the transfer of technology:

"It is necessary to stimulate such investment, not only because of the funds involved, but also for the technical assistance which it entails, and the extension of the know-how which is so badly needed in these countries".³⁷

In other words, although no clear definition is offered of the *internal* division of labour which could foster capital accumulation, on the one hand remaining faithful to the imperative need to increase productivity, and, on the other hand, endeavouring not to reduce the real wages of the workers, the channels through which the initial impetus could be obtained would be the following:

activities". In an essay on dependency written in 1966-1967 by Faletto and myself we placed emphasis precisely on the implications of this process. Baran touched upon it only tangentially. Analyses of imperialism dwelt much more on questions linked to colonialism and to exploitation of the enclave type or of primary commodities than on industrialization with an eye to the domestic market. Even more recently, some writers have *continued* to see the relations between centre and periphery in the light of the old imperialist-exporter relationship.

³⁷ See again Raúl Prebisch: "Theoretical and practical problems of economic growth", *op. cit.*, p. 13. It should be noted, however, that in the same text Prebisch points out that the peripheral countries must make an effort to capitalize primary production in order to improve the level of living of the population, and that "formerly, foreign capital was the principal source of investment (in primary production), but it is now merely supplementary, though of considerable importance" (p. 7).

- control and reallocation of export earnings;
- diversion of resources from current consumer goods to the capital goods sector;
- supplementary –but large-scale– recourse to foreign capital in order to speed up both capital formation and technical progress.

The course subsequently followed by Prebisch –a subject which is beyond the scope of the present paper– was consistent with this outlook: promotion of international trade treaties of a multilateral type to protect the price of primary commodities (UNCTAD), and proposals for multilateralizing and increasing external aid, in order to secure that minimum of additional capital and technique required to guarantee a great leap forward in terms of industrialization and development.

(b) *Adaptations of CEPAL thinking to emergent situations*

The foregoing pages summarize in broad outline the ideas of CEPAL in its heyday.³⁸ Comparison with contemporary thinking shows the originality of the

³⁸ For an anthology containing the most important texts, see CEPAL, *El Pensamiento de la CEPAL*, Santiago, Editorial Universitaria, 1969. This anthology is also published in English as *Development Problems in Latin America: an analysis by the United Nations Economic Commission for Latin America*, Austin, Institute of Latin American Studies, University of Texas Press, 1970. To evaluate the way in which the “CEPAL teaching” was transmitted in the mid-1960s, see the lecture notes on economic development prepared by Osvaldo Sunkel and his collaborators (see also Osvaldo Sunkel and Pedro Paz, *El subdesarrollo latinoamericano y la teoría del desarrollo*, Mexico City, Siglo XXI, 1970, for additional ramifications of Latin American thinking).

CEPAL propositions, their sources and their limitations. Indubitably, however, the theoretical arguments put forward and the solutions proposed –although I have not analysed these latter in detail– reveal some capacity for reformulating theses and proposals in relation to a given historical situation. In this sense, it does not seem an exaggeration to say that there is a Latin American school of economic thought. To suppose that it did not draw nourishment from the classic models and their offshoots would be foolishly naïve. But it breathed new life into the theories it inherited, making them more ductile and more capable of interpreting any new situations that might arise.

As from the mid-1950s, approximately, changes took place in the pace and manner of international movements of capital and in the actual organization of international capitalist enterprises. These changes altered the pattern of relations between the centre and the periphery. I shall not give even a summarized account of this process here. Suffice it to point out that the activities of what subsequently came to be called the transnational corporations considerably increased. What is more, these enterprises –some of them former trusts converted into consortia and diversifying their investments on a world scale, while others were new organizations of a similar brand that came into being– stepped up *industrial investment in the periphery*.

Thus, after the Second World War, the ‘optimism’ of the marxist theorists as to the effects of capitalist expansion on the industrialization of the periphery was *apparently* justified. If up to the mid-1950s the struggle for the industrialization of the periphery had been, *at the same time*, an anti-imperialist struggle, because the trusts placed little

investment in the secondary sector of the periphery, from that date onwards industrialization *came to be regarded as an objective* of foreign capital in some of the peripheral countries.³⁹ The relations between public policies, State enterprises and foreign capital became more and more intensive and complex.

Awareness of this process, however, was slow to grow up in the Latin American mind. The policy of the United States Government, especially during the time of Kennedy and the Alliance for Progress, accepted part of the criticism implicit in the CEPAL analyses, *but changed their emphasis*. It brought to the fore the discussions on 'internal obstacles'—social and political—to development, and expressly sponsored more active forms of international co-operation through the creation of the Inter-American Development Bank, which began to finance health, land reform, road-building and other projects.

CEPAL was, up to a point, engulfed by this policy, and theoretically and ideologically almost foundered on it. The Punta del Este meeting of OAS in 1961 represented the zenith of American politico-social reforming zeal in meeting CEPAL criticism halfway. Topics formerly felt to be risky, such as land reform,

³⁹ With reference to this change in the relationship between centre and periphery, two or three studies by the present writer have appeared. A synthesis of the relevant ideas, in English, can be found in *Dependency Revisited*, Heckett Memorial Lecture, Austin, University of Texas, 1973; "The consumption of dependency theory in USA", in *Latin American Research Review* (in the press); "Dependent capitalist development in Latin America", *New Left Review*, vol. 80, pp. 83-95; and *Current Theses on Latin American Development and Dependency: a Critique*, Ibero-American Language and Area Center, New York University, Occasional Papers N° 20, 1976.

tax reform, planning, etc., were legitimated. But there was also temporary neglect of basic structural questions—the terms of trade, the disparity between centre and periphery in respect of technical progress and real wage levels, etc.—carried far enough for it to seem justifiable to say that CEPAL thinking at that time entered upon a phase of relative decline. The consistency and straightforwardness of its prime was succeeded by a period of increasing prolixity and theoretical vagueness in the CEPAL documents.

At the very time when the pattern of relations between centre and periphery was changing, in consequence of the investment of oligopolistic productive capital in the periphery,⁴⁰ Latin American economic thinking was noting in some of the region's economies a 'trend towards structural stagnation'—mistaking the recessive cycle which began in the early 1960s for a law relating to the difficulty, if not the impossibility, of peripheral development.

Thus a comeback was made, and this time in full force, by a tendency in the initial theoretical analysis which had formerly been relegated to a secondary plane, thanks to that proper concern for the dynamism of the capitalist system which had oriented the best of the CEPAL documents.

I drew attention earlier to the possibility that some of CEPAL's lines of analysis might develop in this direction. Nevertheless, up to the 1960s this had not been the mainstream of CEPAL thinking. It seems that the persistent leftist criticism (the 1957 theses of

⁴⁰ See CEPAL, *External financing in Latin America* (E/CN.12/649/Rev.1), New York, United Nations publication, Sales N°: 65.II.G.4, 1965.

Baran may be recalled) and the failure of industrialization policies to improve the population's level of living and to absorb the economically active population—in view of population growth, rural-urban migration and the initial impact of the capital-intensive style of industrialization—ended by shaking some of CEPAL's firmly-founded convictions, which were indisputably descended from classic economic thought (both liberal and marxist). The deterioration in the external balance-of-payments position during the early 1960s still further darkened the sombre hues in which the future was at that time envisaged.

It should not be supposed, however, that this swing of the pendulum represented a complete reaction against former ideas. The central theses remained, and there was even a recurrence of the theme of the *temporary* character of the need for external resources. Nevertheless, in the document which sums up CEPAL thinking in the early 1960s,⁴¹ *social aspects* were for the first time explicitly discussed and introduced into the explanatory model. Paradoxically, what might have aggrandized the theory was a disturbing factor where the analysis of capital accumulation and of development was concerned.

Why? Perhaps because the indirectness of the reference to class exploitation, which had never come to the fore in the original analysis, betrayed its shortcomings in the revised version. The targets of criticism were now the 'consumer propensities of the upper classes', the lack of social mobility that would

give economic leadership the benefit of new blood and the inequitable income distribution in underdeveloped societies, as if all these involved 'distortions' and obstacles insurmountable by *capitalist* development.⁴² The high-income market, the unchanging agrarian situation, luxury consumption, etc., would restrict the proper utilization of already-installed industrial capacity. The monopolistic structure of enterprises, flourishing under a protectionist régime, would aggravate these distortions.

Statistics showed that by the beginning of the 1960s the dollar value of exports *in per capita terms* had *decreased*, that the deterioration of the terms of trade had become more marked, and that agricultural exports had contracted because, as had been assumed in the 1963 document—"Towards a dynamic development policy for Latin America"—, international demand in this sector would seem to have declined in the wealthy countries (Engel's law), while there was no corresponding reduction in the periphery's industrial import requirements.

Unquestionably, these phenomena did really exist. Linking them up to explain the expansionist movement of capitalism, however, led to less felicitous interpretations, which maintained that *real* dynamism was lacking in the capitalist system and that it would be hard to obtain *real* development effects.

At this time it became fashionable to draw a distinction—ethical at bottom—between 'growth' and 'development'.

⁴¹ See Raúl Prebisch, *Towards a dynamic development policy for Latin America* (E/CN.12/680/Rev.1), New York, United Nations publication, Sales N°: 64.II.G.4, 1964. (Published in Spanish in 1963.)

⁴² It should be pointed out that Prebisch took into account the possibility and probably the necessity of making internal capital accumulation efforts which implied cuts in the level of consumption of the upper classes. But his presentation of the argument was not 'stagnationist' in character.

The latter process would occur only if there was an improvement in the distribution of income and property, which would permit fuller development of man himself. This, of course, was never an interpretation officially endorsed by CEPAL, but it was commonly adopted in Latin American critical thinking. The weakness of such a position lies in the fact that it confuses *socialist criticism* of capitalism with its non-viability. In the meanwhile, it was during that very period that the transnational corporations had launched an energetic process of capital accumulation in the periphery, precisely *by means of* exploitation recipes which contained all the ingredients criticized above. Pessimism was the keynote of the writings of the day. Yet in the decade 1965-1975, not only was world trade extremely dynamic, but the terms of trade, in some years, became *favourable* to agricultural and mining products.

Thus history built up a breakwater against the wave of pessimism that

flowed from confusions between reformist ideals—which were being disseminated in the CEPAL documents—and specific analysis of the development of capitalism. The incompatibility between this latter and the desired reforms gave rise to frustrations; nevertheless, despite ‘distortions’, the national product of the industrialized countries did not fail to grow, and technical progress was stepped up.

Even so, specifically ‘stagnationist’ hypotheses were formulated, slightly ‘sophisticated’ in tone.⁴³ Some CEPAL studies which do not go so far as to propound such hypotheses, do not omit to point out the effects of a low product/capital ratio on the style of development.⁴⁴ The fact that since then some Latin American countries have become subject to authoritarian political régimes has prompted many economists to lay critical stress on the obstacles to development and the disastrous consequences stemming from economic policies enforced in the countries concerned.

⁴³ See Celso Furtado, *Subdesenvolvimento e Estagnação da América Latina*, Rio de Janeiro, Editora Civilização Brasileira, 1966. Furtado sought to show that industrial production, in Brazil's case, was centred upon luxury goods, with a high coefficient of capital per worker in relation to the average density in the economy, and that this would lead to a drop in the product/capital ratio and to greater functional concentration of income. The lower product/capital ratio would have a depressive effect on the rate of profit, would act as a disincentive to investment and would reduce

saving. Given an abundant supply of manpower and a high capital/labour ratio, income concentration would follow and the existing model would be self-perpetuating. However, Furtado's description of the typical contradictory effects of capitalist development (external debt, inflation, lack of consumer capacity among the masses, etc.) is very helpful and enlightening.

⁴⁴ See, for example, Maria Conceição Tavares, “The growth and decline of import substitution in Brazil”, *Economic Bulletin for Latin America*, vol. IX, N° 1, Santiago, March 1964.

IV Innovative Ideas Again?

(a) *The 'malignant'* development style*

The theoretical crisis suffered by CEPAL's interpretation, with its insufficient understanding of the changes that were taking place in the world economy, did not, however, mark a purely negative phase. Not only must it be remembered that during this interval CEPAL as an institution continued to produce substantive reports,⁴⁵ but it was also at this time that a reevaluation of social criticism took place. Studies on income distribution—which were among CEPAL's continuing activities—and analyses of the relationship between technical progress and social welfare assumed major importance. The most creative contribution in this line of thought was that of Aníbal Pinto,⁴⁶ stressing the *internal* inequity of the distribution of the fruits

*'Perverso' ('perverted') in the original Portuguese text. (Editor's note.)

⁴⁵ In addition to the annual surveys—and confining myself to economic analyses—I would refer to two important studies:

- (a) *The economic development of Latin America in the post-war period* (E/CN.12/659/Rev.1), United Nations publication, Sales N°: 64.II.G.6., November 1963;
- (b) *The process of industrial development in Latin America* (E/CN.12/716/Rev.1), United Nations publication, Sales N°: 66.II.G.IV, December 1965.

⁴⁶ See Aníbal Pinto, "La concentración del progreso técnico y sus frutos en el desarrollo latinoamericano", *Trimestre Económico*, N° 125, Mexico City, Fondo de Cultura Económica, January-March 1965; and "Heterogeneidad y modelo de desarrollo reciente en la

of increased productivity. Pinto specifies the meaning he attaches to the 'structural heterogeneity' of the Latin American economies as differing somewhat from the dualist conceptions. He sees it as the result of social marginalization and of a development style based on poles of modernization, which brings about a threefold concentration of the fruits of technical progress, at the social level, at that of the economic 'strata' and at the regional level.

While recognizing that there had been a recrudescence of foreign investment, Aníbal Pinto nevertheless reasserted that the motive power behind development was still the domestic market. Some exponents of the 'dependency theory' had already shown that there was now no contradiction between foreign investment and domestic demand—other than those common to any capitalist development—, since the transnational corporations which invested in the durable consumer goods sectors depended upon an internal market. Aníbal Pinto acknowledged—without expressly saying so—that stagnation was

América Latina", in *Inflación: Raíces estructurales. Ensayos de Aníbal Pinto*, Mexico City, Fondo de Cultura Económica, 1973. A Brazilian translation of the latter appeared under the title of "Heterogeneidade estrutural e o modelo de desenvolvimento recente", in José Serra (ed.), *América Latina, ensaios de interpretação econômica*, Rio de Janeiro, Paz e Terra, 1976. The introduction by Serra, "O desenvolvimento da América Latina: notas introdutórias", is an excellent guide to analysis of the period.

obviated by this model,⁴⁷ whose dynamism was founded no longer either on the 'traditional' or on the 'basic' sectors of the economy, but on the production of durable consumer goods, such as cars, refrigerators, television sets, etc.

What he does expressly affirm is the existence of a 'malignant style' of development –to borrow the term used by Ignacy Sachs–, which *does not imply*, at the national level, the 'trickle-down' effects produced by investment and by economic growth. The Latin American development style would seem to be 'concentrative and exclusive'.

This point of view, empirically recognized and previously enunciated in the critical writings of sociologists and economists, gave rise to innumerable studies and analyses, which stressed the inadequate capacity to absorb manpower that characterized the current type of industrial development, and its effects on the concentration of income.

In its *Economic Survey 1968*, CEPAL took note of the discussion and summarized the current interpretations. Pedro Vuskovic⁴⁸ followed the same line of theory and criticism as Aníbal Pinto, giving it in addition somewhat 'catastrophist' connotations with regard

to the employment capacity generated by this style of development and to the investment capacity of the Latin American economies.

The present article is not the place for a detailed review of the evolution of CEPAL's ideas after the formulation of the concept that a malignant development style was prevalent.⁴⁹ What does seem worth stressing is the following point. The diagnosis of the earliest years presented a brilliant picture in comparison with the first reformulations at the beginning of the 1960s and the misguided pessimism of the same period. But *from the standpoint of a more radical criticism* of capitalist development itself, the 'stagnationist' misconceptions and the mood of pessimism (shown by the more dynamic situations, like that of Brazil in 1968-1975, to have little foundation in fact) gave rise to doubts and intellectual unrest which, from the second half of the 1960s onwards, broadened the horizon of perception as regards the social nature and the effects of capitalist development. The essays by Aníbal Pinto and Pedro Vuskovic, cited as examples, indicate the direction thenceforward taken by CEPAL-inspired Latin American thought.

⁴⁷ For a general critique of the 'stagnationist' hypothesis see Maria Conceição Tavares and José Serra, "Além da estagnação: uma discussão sobre o estilo de desenvolvimento recente do Brasil", in José Serra, *op. cit.* The original version of the study is dated 1970. As far as I know there was no explicit theoretical criticism prior to this.

⁴⁸ See Pedro Vuskovic, "Concentración y marginalización en el desarrollo latinoamericano", 1969; and "Distribución del ingreso y opciones de desarrollo", in José Serra (ed.), *Desarrollo latinoamericano: Ensayos críticos*, Mexico City, Fondo de Cultura Económica (*Lecturas*, N° 6), 1974. (This study was originally issued in 1970.)

(b) *Structural dependency*

About halfway through the 1960s, both inside and outside CEPAL another line of interpretation –more sociological

⁴⁹ Vilmar Faria presents a sound and detailed analysis of this evolution. See his Ph. D. dissertation, "Occupational marginality, employment and poverty in urban Brazil", Harvard, 1976, especially pp. 41-49, and, for a summary of 'stagnationist' points of view in CEPAL, pp. 37-40.

and political— was initiated; although not immediately incorporated into the thinking of the institution itself, it was to appear later on in the writings of Vuskovic, Celso Furtado, Osvaldo Sunkel and others, and came to be known as the ‘dependency theory’.⁵⁰

The subject was approached from several angles. As was pointed out in another study,⁵¹ the initial versions produced in CEPAL itself, between 1965 and 1966, again raised the question of why peripheral industrialization did not have its logical effects on the course of development, and in supplying answers, laid emphasis on certain contributory factors:

- the first relates to the placing of foreign investment in the sector producing durable consumer goods (as seen above), with the result that the accumulation cycle has had to be completed at the world level, since keeping up the pace of economic growth implies expanding imports of capital goods;
- specifically, this process means that despite the industrialization of the peripheral economies, the sector producing capital goods (Department I in marxist language) continued to operate in the central countries. Accordingly, the dynamism deriving from investment in the domestic

⁵⁰ A preliminary version of a study on dependency in relation to development was presented by me in ILPES in 1965. Following upon this report, Faletto and I published *Dependencia y Desarrollo*, Mexico City, Siglo XXI, 1969, of which the first complete mimeographed text had been circulated in 1967.

⁵¹ See F. H. Cardoso, “O consumo da teoria da dependência nos USA”, Princeton, 1976 (mimeographed text). This study is to be published in English in the *Latin American Research Review*.

market spread *to the centre*, so that the cycle of capital expansion could be completed. There is no obvious reason to believe that this is a rigid and insuperable obstacle, but up to now the crucial advances in technology and the financial backing needed to achieve them have been secured only by the industrialized countries;

- this implies that the central and peripheral economies are ‘interdependent’, but through a specific asymmetry which *once more raises* the question of a possible deterioration of the terms of trade, if, in the industrial sectors, real wages and productivity should differ in the centre and in the periphery.

Hence, the immediate inferences to be drawn are, in brief, as follows:

- the form of capitalist expansion which I have elsewhere called ‘dependent and associated development’ is not without dynamism;
- but the fact that this dynamism is only partial *once again poses* the international balance-of-payments and asymmetry problems stemming from disparate development of the forces of production and from different rates of profit or wages (therefore, of exploitation);
- thus neither the ‘development of underdevelopment’ theory nor that of ‘stagnationist’ hyperexploitation holds good;
- but it is hard to accept hypotheses which suggest that an expansion with effects similar to those that occurred in the centre will take place in the periphery, as used to be the belief both of some marxists who trusted in the revolutionary force of capitalist development and of certain thinkers whose analyses were

oriented by the so-called 'modernization' theories.

The foregoing paragraphs sum up the postulates of what was not the only, nor even perhaps the most influential version of 'dependence' theory. There were other variations on the theme just as 'stagnationist' and catastrophist as some of the CEPAL hypotheses previously criticized, or even more so. And there were likewise interpretations couched more in terms of 'national dependency'

and of the difficulties relating to 'external dependency' than had been the 'structural dependency' version which I have sketched in very broad outline above.⁵²

Be that as it may, however, these studies sought to analyse in greater depth some of the elements already contained in the CEPAL interpretations and to elucidate both the foreign capital question and the class basis of capitalist development.

V

Another development

Lastly, in this already lengthy account of some of the contributions made to Latin American thinking, and of the difficulties arising, yet one word more must be said on the 'criticism of criticism'.

The dissatisfaction aroused by the 'malignant' style of development also paved the way for a more sociological analysis of the effects of capitalist expansion. As from the time of Medina Echavarría's earliest studies, CEPAL sought to improve upon the tone of formal rationality with which analyses of development were content. Marshall Wolfe and his collaborators followed this style of interpretation of development,⁵³ in opposition to the 'unified

development' approach which came into vogue in the United Nations.

Instead of accepting the new version of a necessarily balanced pattern of development, such as has been proposed in some United Nations Economic and Social Council documents, Wolfe and other CEPAL sociologists contend that the capitalist development process is inherently contradictory. The earlier controversy between theories based on the idea of balance and others that stress —like Hirschman's— the disequilibria deriving from development crops up again in the context of sociological discussion.

Pursuing the same line of thought, some CEPAL reports expressed a critical view of the possibility that there may be non-contradictory roads to development, such as those envisaged by the proponents of a 'new international economic

⁵² For the development of these ideas, see F. H. Cardoso and Enzo Faletto, *Dependencia y Desarrollo en América Latina*, *op. cit.*

⁵³ See Marshall Wolfe, "Approaches to Development: who is approaching what?", which embodies the gist of his principal studies during the last 15 years; and Jorge Graciarena,

"Power and development styles". Both these articles appear in *CEPAL Review* N° 1, First Semester 1976, Santiago, Chile, United Nations publication, Sales N°: E.76.II.G.2.

order' and a 'self-reliant' style of development —egalitarian, not bedazzled by technological progress, and respectful, moreover, of the ecological limits of mankind—, concepts which were received with some scepticism by the CEPAL experts.⁵⁴

Not that the generosity of those who propose 'another development style' is incompatible with the humanistic creeds of certain sectors of Latin American critical thought. But, since this thought inherits, in a broad sense, the legacy of the classical school (liberal and marxist, with all the inherent contradictions), however adulterated it may be by the heterodox ideas which enriched (and confused) CEPAL's contributions, it finds difficulty in accepting the libertarian utopianism from which the new critics draw their sustenance. Between perplexity and mistrust, CEPAL 'westernism' is only beginning to ruminate concepts and values still profoundly alien to it.

In one of his most eclectic texts (*Change and Development: Latin America's great task*, published in 1970) Prebisch managed to digest several of the theses in vogue: the problem of the population explosion, the ill-effects of capital-intensive technology, dependency, occupational distortions, etc. But in a recently-published article entitled "A cri-

tique of peripheral capitalism",⁵⁵ he re-traces his theoretical course, in a sort of reaffirmation of the 1949 Manifesto, *amplified* to include such pertinent themes as dependency, inequitable distribution of the fruits of technical progress, democratization. The text virtually does not step out of what I would venture to call the 'classic' line of CEPAL. In this sense, it does not embrace purely *ad hoc* topics or interpretations. Questions relating to 'another development' are not incorporated.

Perhaps this is a drawback of rationalistic pragmatism. But it may well be the wariness of a school of thought which, having attempted to produce ideas in the context of a given historical situation, with the aim of finding ways out of structural impasses, does not want to repeat the mistake of confusing the circumstantial with the fundamental, the cycle with inexorable one-way trends, fashion and rhetoric with central problems of society and of knowledge.

This attitude does not make CEPAL's ideas a banner of revolution, but it does at least assure them a measure of consistency, and, while leaving them open to criticism from more radical points of view, precludes the possibility of doing with them what Marx always refused to do with Hegel's thinking: treat it as a 'dead pup'.

⁵⁴ See the stimulating paper by José Medina Echavarría, "Las propuestas de un nuevo orden internacional en perspectiva", (CEPAL/DS/

148), November 1976 (mimeographed text only).

⁵⁵ See *CEPAL Review* N° 1, *op.cit.*, pp. 9-76.

Conclusions

Comparison of CEPAL's studies on international trade and development with the conceptions prevailing in the academic world of that time (the 1950s) shows that there was originality in the CEPAL formulations. Subsequent criticism, although recognizing, in general, the progress made by CEPAL in relation to the neoclassical and marginalist theories, sought to play down the novelty of Latin American thought, by demonstrating that its theoretical propositions fell short of what Marx had said a century before. This argument may be sound as far as accumulation theory is concerned, but lacks historical perspective when it bears on the problems created by the industrialization of the periphery and the restrictions imposed upon that process by the prevailing theory of international trade. The CEPAL theses have obvious roots in classic economic thought and in marxism, and are permeated by the language of Keynes. This ambiguity makes it difficult to determine the theoretical framework in which the analysis is developed.

The originality of CEPAL's thinking, on the other hand, did not consist merely in stressing the existence of a tendency for the disparities between nations to be reproduced through international trade, and accounting for it by the differences between the centre and the periphery in respect of wage levels and degrees of technical progress. This

alone was already enough to constitute an analytical outlook more comprehensive than that implicit in the alternative formulations current at the time. But CEPAL's originality lies also in its effort to convert this interpretation into the matrix of a whole set of policies to promote industrialization. In this sense, CEPAL's thinking generated *ideologies* and motivated action, opening out towards political practice. For that very reason, it became easier to see the weaknesses of an analysis which pointed to the causes of inequality, but stayed its criticism on the threshold of the subject, without exposing the class content of economic exploitation as between centre and periphery and within the periphery itself.⁵⁶

At the theoretical level proper, the originality of the CEPAL version of development theory was more implicit than explicit. During the same decade in which it was formulated, some Cambridge economists were devoting themselves to theoretical criticism of the concept of the 'production function' and to reviewing accumulation theories. In 1960, Piero Sraffa published a book entitled *Production of Commodities by means of Commodities*, intended to bring about a new 'return to the classics'.

⁵⁶ For what is, in my view, the most challenging of the criticisms voiced, see Francisco de Oliveira, "A economia Brasileira: crítica à razão dualista", *Estudos CEBRAP*, N° 2, São Paulo, October 1972, pp. 3-82.

In the studies referred to, especially Sraffa's, it can be seen how some of the problems linked to value theory and relative prices – problems implicit in the CEPAL analysis – could be dealt with rigorously by making a thoroughly searching critique of marginalist theories.

The truth is that Sraffa returns to Ricardo, shelving Marx's criticisms of him. He also sets aside the theory of exploitation and its implications for the class struggle in order to concentrate on showing the relations between values and prices and the problems of choosing technologies. But the fundamental consequence of Sraffa's work was his radical criticism of the neoclassical theses on the 'aggregate production function'.

It theoretically resolved the problem of establishing a standard measure of value, and made a devastating attack on neoclassical 'aggregate production function' theory.⁵⁷

Despite the non-existence of intellectual interaction, there are points of contact between the 'Cambridge school's' criticism of the neo-classical theories and CEPAL's criticism of the theory respecting the factors of produc-

tion and the optimization of profits through relative prices at the level of international trade. The theoretical premises of the Cambridge school do not cover analysis of income distribution in the international market, but they could, if redefined, afford a better explanation of the theoretical repercussions of CEPAL's criticism of the neoclassical theories of economic growth. If the CEPAL texts are more comprehensive than those of the Cambridge school in their interpretation of the reason for inequalities – since they include trade union conflicts and politico-institutional factors in the determination of wages, and, implicitly, class exploitation – they fall far short of their own theoretical possibilities as regards the analysis of the relations between capitalist development and income distribution, and between international trade and the factors of production. Instead of focusing their interest on theoretical questions, the CEPAL economists confined their attention to practical problems.

In the CEPAL analyses there may be found side by side, and unintegrated (as the language used denotes), classical, marxist, Keynesian, neoclassical and purely marginalist explanations of market price mechanisms and economic growth. The scant attention paid to economic theory – understandable in the historical and institutional context, but not justifiable – has made it difficult for the originality of the CEPAL interpretation of under-development and international disparities to be recognized by the international economic world. The time has come to review the appraisals made and to acknowledge that even if it did not expound its discoveries in theoretical terms, the CEPAL school put forward sound criticisms of neoclassical theory respecting international trade. To

⁵⁷ It is beyond the scope of the present article to dwell in greater detail on this subject, which, moreover, is outside the field of competence of a sociologist. What Sraffa proves is the weakness of the neoclassical assumption that the ratio between product-per-man and capital-per-man can be measured for the economy as a whole without taking value into account, since the physical goods measured are heterogeneous. Consequently, it is essential to ascertain *relative prices*, which, over the long term, *depend* on existing technical conditions, on the relation between consumer and production goods and on the distribution of the product between capital and labour. It is impossible, therefore, to 'optimize' the 'factors of production' as if capital, wages and technology were given, and were 'profitable' in accordance with a technical relationship between them.

recast them, with the aid of Sraffa's theoretical tools, is a tempting task for economic theorists who want to make use of old models in order to say new things.

The restatement of ideas in new contexts, far from being a purely repetitive process, implies an enrichment. If there is any world in which the image of perpetual motion is meaningless, it is the world of thought; the passage of the 'same' idea through a different historical and cultural universe turns it into a different thing. It seems to me that the ideas formulated by CEPAL constitute, in this sense, a good example of originality; they dealt with questions which had to be faced in order to tackle the practical economic problems arising, and, although they were based on analytical instruments fashioned in other settings, they had to recast these for the purposes of explaining an inequitable international trade situation and justifying policies favourable to the industrialization of the periphery. If more was not done it was because, as I have stressed, the critical radicalism of CEPAL was placed under constraint by its politico-institutional position — after all, it is an inter-governmental organ — and because it lacked the intellectual *élan* to propound the themes it tackled in the perspective of an economic theory of the accumulation process. My mention of recent 'Cambridge school' developments was intended only to show that even within CEPAL's narrow political

and institutional bounds, and without taking marxist critiques as a starting-point, criticism of the conventional academic economics prevailing then (as today) could have been pursued farther and along stricter lines.

To say that an intellectual analysis might have been carried farther, however, does not imply any denial of the advances it represents. On the contrary, I think it is proper to a sound theory to leave the reader's mouth watering. Only the dogmatic are intent on closing the circle of knowledge; only they produce systems which create the illusion that they are like the ancient Sphinx who said "Read my riddle, or die". Creativeness in the realm of science is measured by the craving that a theory arouses in its followers to advance beyond it while, in doing so, feeling the need to say: Without this short cut, I could not have found the opening through which I have been able to see farther ahead. CEPAL produced ideas which, in their time, contributed to the understanding of some of the crucial problems of capital accumulation in the periphery and some of the obstacles in its way. For these ideas no epitaphs need be written. They have undergone changes and moulted their plumage, as *idées-force* often do; but they have continued to survive, sometimes in other institutions or with other shades of colour, while at the same time, as usually happens with all scientific interpretations, the dead tissue has been sloughed off by the wayside.

Preconditions and propositions for 'Another development' *Marshall Wolfe* *

The author has asserted in earlier papers that the broad pronouncements made by international organizations —suggesting what must be done without mentioning who is to do it how and when—, the dissemination of 'practical' techniques and the execution of 'pilot projects' have been of very little use in orienting the Latin American countries; because they are too general or too piecemeal, because they are ill adapted to the realities of the technical and economic situation, because they are not politically viable, etc. To avoid such mistakes he does not put forward his proposals as universal panaceas, but as criteria, ideas or guidelines relating to some of the vital issues with which Latin America's national societies will have to cope, if, as may plausibly be supposed, their future scenario turns out to be full of complex mutations.

The preconditions once established, he classifies his proposals under four heads. In principle, he accords priority to questions connected with the satisfaction of basic needs, i.e., the national-scale production, distribution and consumption of goods and services regarded in that light; he then propounds certain theses on employment, stressing in particular that it should not be interpreted merely as a source of production and income, but also in its broad psychosocial significance, as a basis for possible 'meaningful human activities'. Next he goes into the subject of participation and the distribution of power at the national level, and the article culminates in a discussion of international relations problems linked to the idea of self-reliance.

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1. Where to?

The present text follows upon papers that have pointed to contradictions in the images of the human future in recent declarations on development and speculated on the reasons for such contradictions; that have described 'seeds of change' in different types of national societies which affect the likelihood of a coherent response to the concerns underlying the declarations; and that have discussed the case for 'critical poverty' as the central policy focus for 'another development'.¹

The author has thus far evaded the challenge to propose a more adequate focus for development policies capable of realizing the hopes that have been invested in 'another development'. The preceding papers exposed his inability to escape from scepticism concerning the relevance of prescriptions addressed to humanity at large or governments in general by the international bureaucratic and academic machinery that continually generates meetings and reports and missions around the elusive topic of 'development'. The thorniest problem is not the formulation of better strategies for human-oriented development. The efforts of dedicated thinkers over the past two centuries seem to have uncovered all conceivable solutions; some

¹"The concrete utopias and their confrontation with the world of today" (CEPAL/DRAFT/DS/134, March 1976), and "Poverty as a social phenomenon and as a central issue for development policy" (CEPAL/DRAFT/DS/133, May 1976). The term 'another development' is borrowed from *What now? Another development*, in the 1975 Dag Hammarskjöld Report on development and international co-operation, Upsala, Sweden, 1975.

of these solutions have been tested in practice; and some of them have helped to change the course of history. The institutionalized continuation of these efforts today continually rediscovers, without acknowledgement or even awareness, ideas current among utopian socialists of the early 19th century or late-19th-century Russian populists. The would-be architects of ideal societies have commonly envisaged social change processes as more manipulable and less ambiguous in their consequences than has been the case. While their influence has been very great and has undergone surprising metamorphoses, they have failed to identify and 'conscientize' social forces willing and able to apply strategies oriented to human welfare coherently, realistically, and flexibly over the long term.

A sympathetic study of the experiences of political leaders and planners who have tried to apply coherent strategies to their own national setting conduces to humility, and even suggests that the last thing they need is more generalized advice couched in catchwords, such as the 'unified approach to development', on what they ought to do if they could count on an ideal social consensus and an ideal capacity to acquire and digest information.² The 'high-level expert' who pontificates on *what* must be done and evades the questions *who* and *how* is justifiably becoming a figure of fun. At the other extreme, the purveying in international reports of shopping lists of 'practical' techniques and 'pilot projects', on the supposition

² A good many studies, some by active participants, of the real vicissitudes of development policy-making are now available. Two books published by the Latin American Institute for Economic and Social Planning (Institu-

that policy makers can pick and choose from sketchy descriptions of what has allegedly succeeded elsewhere, is also reaching a dead end of futility. The situation of the real participants in policy-making is generally closer to that of Alice in her Wonderland croquet game than to that of the powerful, benevolent, unimaginative entities to which development prescriptions seem to be addressed.³

Some of the propositions now competing for attention in the utopias devised by committees are more promising than others, not as ready-made prescriptions but as criteria against which policies can be assessed, ideas promising a certain capacity to penetrate public opinion and help to modify dominant values, and signposts to paths that national societies may not be able to avoid entering upon, *if* the future evolves along certain lines that seem at least as plausible as the alternatives.

This last point deserves emphasis. If the international economic order recovers its previous dynamism, if the present centres retain their hegemony and use it for the same purposes as heretofore, if the contradictions gener-

to Latinoamericano de Planificación Económica y Social - ILPES) in 1972 (Carlos Matus, *Estrategia y plan*, and Sergio Molina, *El proceso de cambio en Chile*, both Editorial Universitaria, Santiago, Chile, 1972) and the more recent ILPES papers on *Estado y planificación* are particularly relevant.

³ "Alice thought she had never seen such a curious croquet-ground in her life; it was all ridges and furrows; the croquet balls were live hedgehogs, and the mallets live flamingoes, and the soldiers had to double themselves up and stand on their hands and feet to make the arches. . . . Alice soon came to the conclusion that it was a very difficult game indeed. The players all played at once without waiting for turns, quarrelling all the while, and fighting for the hedgehogs. . . ."

ated by present styles of development in semi-developed peripheral national societies such as those of Latin America continue to be manageable in one way or another, such propositions can, at most, be received by the dominant forces as 'missing ingredients' to be added to the style of development in order to make it function better, or to forestall criticisms of its inequity, with the likely result of introducing secondary contradictions and anomalies in its functioning. If the medium-term future should bring catastrophic breakdown in the international order, we have no way of offering rational guidelines to the societies as to how to cope, or even of forecasting what social forces would become dominant in these societies.

The following pages will discuss the relevance of certain propositions on the supposition that the medium-term future will be one of frequent and continually changing crises not amounting to catastrophe, of contradictory stimuli from the world centres and waning capacity of the centres to exercise hegemony, of challenges for which neither the forces dominating present governments nor the counter-élites are prepared. In the short term, one can expect successive waves of frantic urgency for action subsiding into complacency at any sign of return to the 'normal'. Measures taken piecemeal to cope with disbenefits of styles of development will cumulatively change the character of the styles, for better or worse.

State interventions in the society will become more pervasive, but not necessarily more coherent, and these interventions will interact with the changing demands and values of social forces, and with changing forms of alienation from and resistance to the State.

Certain propositions from current discussions of 'another development'

may gain political viability through lessons of experience demonstrating their necessity for human survival, and through changes in values, social relationships, and power structures that can accord them effective priority over incompatible social demands.⁴

The propositions in question refer to the meeting of basic human needs, self-reliance, participation, and a theme recurring in discussions of 'another development' but not yet endowed with a uniform label: it will here be called 'meaningful human activity', that is, actively meaningful to the individual as well as contributory to the society's evolution toward 'another development'. All of these propositions can be treated as 'missing ingredients' in current styles

⁴The future here envisaged corresponds to the scenario of 'competitive détente' described by José Medina Echavarría in "Latin America in the possible scenarios of détente" (*CEPAL Review*, N° 2, second half of 1976), but supposes a greater loss of control by the two hegemonic powers, for internal and external reasons, and more freedom of action by the peripheral societies, without, however, the emergence of a coherent 'new international economic order'. The concept of 'mutation' instead of 'crisis', introduced in a recent article by Alain Touraine, helps to clarify the approach proposed here. In his view, a study conducted in terms of crisis leads up to recourse to a rescue plan for the planet envisaged as a vast social system, at the core of which a central authority, or, more simply, a coherent will, could propose reasonable solutions, beneficial, that is, for mankind as a whole, and at the same time technically feasible. When people shout "Fire!", it means that they expect the firemen to come... Conversely, to speak of mutation brings to the fore cultural changes and changes in social relations, particularly power relations; and this is meaningful only within real social systems, i.e., systems defined by institutions and powers. (See Alain Touraine, "Crise ou mutation?" in *Au-delà de la Crise*, Paris, Editions du Seuil, 1976, pp. 24-25.)

of development, but if the future assumes approximately the traits suggested above, their unavoidability on the one hand and their incompatibility with certain other objectives and with prevailing life-styles on the other will become more evident. The discussion of 'seeds of change' in an earlier paper suggested some of the ways in which this is beginning to happen. The future may then depend on the extent to which emerging forces in human societies can realistically and rationally evolve new life-styles summed up by the four propositions, accepting the sacrifices and making creative use of the opportunities they imply, and keeping under control the drives incompatible with such an evolution. It is possible that human societies will prove so wedded to present life-styles that they will perish rather

than undertake their transformation. It is also possible, unfortunately, that they will find no means of doing so which will not incur such heavy costs—in failed experimentation, substitution of facade achievements and rituals for real achievements, chronic conflict and mutual sabotage between groups trying to impose their own will, regimentation and manipulation of consensus—that 'another development' will satisfy the hopes invested in it no better than the styles now prevailing have done. Part of the case for the four propositions listed above is that, taken together, they point to caution in social engineering. Even if a portion of a national society should achieve the power to fit the whole society to a bed of Procrustes, the exercising of such power is not the most promising way to 'another development'.

2.

Priority for the meeting of basic human needs

This proposition has the virtue of directing attention equally to production, to consumption (as the main legitimate reason for wanting higher production), and to distribution (as the provision of relevant 'basic' goods and services to all). It points to the elimination of critical poverty without singling out the poor as a category to be 'helped'. By itself, it has the disadvantage of being uninspiringly utilitarian. The meeting of basic needs does not constitute an image of the future society adequate to inspire the enormous effort, including the effort of self-restraint and social discipline, that is called for, any more than does the more elaborate lure of consumerism. Man does

not live by bread alone. The symptoms of crisis or breakdown in most national societies today derive as much from the failure of these societies to afford participation in meaningful activity as from their failure to satisfy basic needs for goods and services.

For present purposes, the essential element in a definition of 'basic needs' is that the term refers to the goods and services that can be produced and distributed to the whole of a national population, in accordance with realistic expectations, independently of the achievement of a more equitable world order. This does not mean autarky at the national level; all national societies will

have to satisfy part of their basic needs through exchange of products for which they have comparative advantages, and the smaller the national population the larger this proportion will be. However, a basic needs strategy would presumably mean a smaller role for international trade than at present.

The national definition must respond to an objective criterion for 'basic' (e.g., meeting minimum physiological needs) and also to the subjective criteria of the people whose basic needs are in question. It is important to avoid the trap of making definition and measurement of basic needs ends in themselves, and also the temptation to admit as 'basic needs' the whole range of desiderata that have received international recognition as 'human rights'. A 'right' is meaningful only to the extent that a national society is really capable of honouring it for all its members; otherwise, insistence on rights unavoidably becomes a tactic for the protection and extension of minority privileges. This point is particularly important for societies such as those of Latin America, in which different strata of the national population have quite different norms for basic needs, and in which the strata with relatively elaborate norms have greater power than the others to impose their conceptions on public policies.

Moreover, it cannot be taken for granted that conventional goods and services and conventional systems for their provision constitute the only means or the most efficient means of meeting the basic need to which they are addressed. This problem manifests itself differently in relation to each need and calls for examination of the widest possible range of alternatives. The prior fixing of quantitative targets (e.g. number of years of formal education) may cramp

the search for better alternatives. In the case of education, for example, it now seems probable that concentration on the social *purposes* of education within societies having the overall priorities summed up in 'another development' will sharply diminish the relevance of the conventional norms, which can be satisfied by herding all children for a given number of days and years into buildings labelled 'schools'. As regards transport, within present urban patterns, a considerable expansion of cheap public transport is a real basic need to be preferred to the proliferation of private automobiles; but a transformation of the urban patterns might remove most of the need by bringing places of work within walking distance of homes.⁵ The shift in national priorities and popular expectations implied by an authentic basic needs strategy is so extensive and so potentially traumatic to the 'modernized' sectors of the population that such a questioning of conventional solutions and search for alternatives might reduce rather than intensify the political difficulties. It would widen the possibilities for popular participation and introduce an element of creativity counteracting the drab uniformity that might otherwise come to dominate such an approach. Ideally, it should make economic costs more manageable while permitting a more generous and inspiring conception of basic needs. At the same

⁵ Ivan Illich and the Centro Intercultural de Documentación (CIDOC) in Cuernavaca, Mexico, have done some of the most stimulating thinking on alternatives, although the alternatives proposed are sometimes simplistic. See Ivan Illich, *Deschooling Society*, New York, Harper & Row, 1973; *Energy and Equity*, London, Calder and Boyers, Ltd., 1973; and *Tools for Conviviality*, New York, Harper & Row, 1973.

time, it would unavoidably complicate the planning and administrative problems; the opening-up of alternatives is a frightening prospect for bureaucratic institutions wedded to standardized procedures, and the capacity of the public to embrace new ways of thinking about needs is an unknown quantity.⁶ These considerations lead back to the essential complementary roles of meaningful activity, participation, self-reliance, to be discussed below.

Since the conception of 'basic needs' advocated here is governed by national capacities rather than universal standards, the relevant short-term standards for some national societies may have to be meagre indeed, but in Latin America the norm can be well above the 'rock-bottom level of physical existence' referred to in the 1975 Dag Hammarskjöld Report.⁷ Under these circumstances, a basic needs strategy does not require strictly egalitarian distribution -the political and economic costs, if they could

⁶ See Win Crowther, "The search for relevance: political ideology, culture and political choice as factors of technological development and dependence in Latin America" (CEPAL, draft, 27 January 1976), for some challenging propositions on the need for and feasibility of a replacement of routines by creative problem-solving.

⁷ In reproducing a suggestion for India of an initial target of a daily income per working adult equivalent to 3 kg. of cereals in rural areas and 4.5 kg. in urban areas. (*What Now? Another Development*, *op. cit.*, p. 42.) The recent report of the Director-General of the International Labour Office, *Employment, Growth and Basic Needs: A One-World Problem* (ILO, Geneva, 1976) presents an acceptable classification of basic needs and emphasizes, first, that "basic needs constitute the minimum objective of society, not the full range of desirable attributes . . ."; secondly, that "basic needs can be relative as well as absolute" (p. 33).

be met at all, would outweigh the benefits, and the implied regimentation would be a major disbenefit in itself. But such a strategy does imply that public policy, to the extent that it controls the relevant factors and has mobilized sufficient understanding and support, should restrict the satisfaction of non-basic wants that conflict with the satisfaction of nationally defined basic needs and with the *kind* as well as the amount of capital accumulation required to enhance their satisfaction in the future. The relevant policy instruments would include differential taxation to discourage some forms of consumption, subsidies to other forms of consumption, restriction of non-essential imports, controls on commercial publicity, and others that come readily to mind. The effectiveness of these instruments -most of which have been resorted to for one reason or another even within current 'consumerist' styles of development- would depend on simultaneous changes in the values, expectations, and participatory capacities of different social strata, probably under the impact of crises demonstrating the non-viability of previous expectations.

The proportion of national income devoted to investment within a basic needs strategy might or might not be higher than before. Priority for the meeting of basic needs cannot logically be denied through a *generalized* plea for higher rates of accumulation, since the destinations of a large part of previous 'productive' investment, and also of infrastructural and even social investment, would become irrelevant or worse. It goes without saying that the need for accumulation will remain and that this will warrant austerity in the definition of basic needs for many years to come. However, the dominant forces in the national societies

will be justified in calling for austerity mainly in so far as they can demonstrate that accumulation will, in fact, enhance the capacity to meet basic needs in preference to other ends.

Other things being equal, one might suppose that the conversion of the general proposition on basic needs into a politically and economically viable strategy would become more feasible to the extent that:

- (a) Existing national productive capacity is sufficient and the nature of the main products is such that a level of living can be afforded to all which is not so meagre that the population puts up with it only as far as it cannot help doing so –like the 'critically poor' at present;
- (b) National planning and administrative mechanisms are sufficiently well-developed, and the State has sufficient legitimacy, for State and society to be able to find practicable means of ensuring that basic needs have priority;
- (c) The life styles and expectations of the population are sufficiently homogeneous to imply that realistic basic minima for the whole population would not come into unmanageable conflict with the demands of sizable minorities having specific conceptions of their own basic needs.

The real processes of dependent economic growth and social change in the Third World up to the present make it ingenuous to expect that all three of these conditions will be favourable to a basic needs strategy in any one national society. To the extent that productive and administrative capacity is favourable and the State enjoys wide recognition as the legitimate formulator of national goals, the social differentiation of the

population increases and the groups that stand to lose in the short term by a basic needs strategy become larger and more articulate. Low levels of per capita income do not rule out a basic needs strategy if social solidarity is present and the State has a certain mobilizing capacity. China has demonstrated how much can be done under these circumstances, but also how traumatic are the historical processes that may make the doing possible. Sri Lanka, with a national system of subsidized or free rice distribution in effect most of the time since the 1940s, and with relatively well-developed educational and other social services, has also demonstrated the feasibility of a basic needs strategy at a per capita GNP level well below that of any Latin American country.⁸ The Sri Lanka policy seems to have entered into crisis not because of inability to afford the rice distribution and the social services, but because of inability to incorporate these into a coherent alternative style of development affording incentives to productivity and meaningful activity for the educated youth.⁹

A basic needs strategy should become more feasible to the extent that production is already oriented towards

⁸ According to the *World Bank Atlas 1974*, the per capita GNP of Sri Lanka in 1973 was 120 dollars; in Latin America in the same year, only two countries fell below 300 dollars, and most were at much higher levels.

⁹ "... the package of welfare policies was anti-growth and anti-development not so much because it competed with the development programme for *scarce capital*, but because it removed the *incentives for growth and development* in the very sectors in which investments were being made." United Nations Research Institute for Social Development (UNRISD), "Case Study: Sri Lanka (Ceylon)", Marga Institute, October 1972.

staple foods, clothing, simple construction materials, and other mass-consumption goods, and services towards elementary education and basic health care at low unit costs. If production is oriented towards minerals or agricultural products for export, and if the State is able to capture a major part of the proceeds, this may also favour a basic needs strategy—depending on the character of the forces dominating the State—, but with a greater bias toward assistentialism, as seems to have been the case in Sri Lanka. The least favourable initial pattern would be an economic structure oriented towards the production of durable consumer goods, whether for the domestic market or for export, under the control of transnational enterprises, and requiring continual imports of capital equipment, production inputs, technology and promotional innovations.

This last pattern, combined with heavy investment in urban luxury residential and commercial construction, has in recent years come to predominate in some of the larger Latin American countries and exercises significant influence in almost all of them. As previous papers in this series have emphasized, the resulting dependent semi-development *apparently* enhances material capacity to implement a basic needs strategy, but reduces the likelihood of political will to do so. Moreover, the material advantage over poorer, more predominantly rural countries is partly illusory. The endowment of productive capital; the patterns of modernization of productive techniques; the relatively extensive infrastructures of power, transport and communications; the concentrated urbanization; and the elaborate, bureaucratized structures of education, health services, public housing and social security all

have ambivalent roles. They are compatible—some of the time—with relatively high rates of increase in GNP and with either a highly concentrated 'elitist' or a less concentrated 'mesocratic' distribution of incomes¹⁰; and they may possibly be compatible with a combined assistential-repressive system for the relief of critical poverty, but the weight of evidence indicates that they are not compatible with a strategy giving consistent priority to the meeting of basic needs plus capital accumulation at levels that the economies should, in principle, be able to support.

The character of the capital equipment and technologies that have been introduced are clearly a large part of the problem—an automobile cannot be divided into twenty pieces to satisfy the basic transport needs of the masses, the construction techniques appropriate to modern apartment and office buildings cannot readily be adapted to 'basic' housing, and the manufacture of durable goods cannot revert to simple employment-spreading technologies. The attitudes of the key social groups that benefit or hope to benefit from the prevailing style of development constitute an even more formidable obstacle. University-educated intellectuals and planners who endorse a strategy for priority meeting of basic needs will probably resist its implications for themselves and their children. So will the leaders of the armed forces that will have to tolerate it, curb their own appetite for expensive innovations in military equipment, and turn a deaf ear to appeals from groups whose expectations are threatened.

¹⁰ See Jorge Graciarena, "Types of income concentration and political styles in Latin America", *CEPAL Review*, N° 2, second half of 1976.

If one supposes that continuing crises in the international order, changing stimuli from the world centres, and chronic inability in the national systems of semi-development to satisfy the expectations they have generated will periodically bring the question of 'basic needs' back to each national agenda, it is far from inevitable that the responses will be adequate. The social forces that are prepared to tackle the problem cannot

expect a smooth, consensual, rationally-planned transition, but they must struggle to keep the transformation from going to other extremes, such as doctrinaire solutions hastily imposed on an uncomprehending population; promises and gestures to satisfy the 'basic needs' conceptions of all sectors of opinion; distortion of the strategy to serve the interests of the technobureaucracy and substitute propaganda for the recalcitrant reality.

3.

Meaningful human activity and employment

Up to the present, the satisfaction of basic needs has been, at best, a by-product of economic and political systems that have functioned according to their own laws. Men have had to serve the capitalist system, however irrelevant or even threatening to their own well-being the services demanded and the resulting output might seem to be, in order to make the system erratically and intermittently serve them. If public policy tries to make the system function too directly on behalf of human welfare, curbing waste and potentially destructive activities, the system functions badly and human welfare suffers. If public policy eliminates an intolerable but essential component of the system, such as unemployment, the system responds with inflation. The workers serving the system come to welcome pollution of their environment and insist on rising production of armaments, even if the latter are demonstrably obsolete for defence purposes or are demonstrably intensifying the risk of mutual mass extermination. The paradoxical traits of

the functioning of capitalism have been exhaustively diagnosed since the nineteenth century, and while public policies have managed to raise the satisfaction of basic human needs to a degree that could not have been expected in earlier stages, the means have remained indirect, wasteful, and plagued by unwanted and unexpected by-products.¹¹ The socialist systems have come closer to an egalitarian distribution of basic goods and

¹¹ "Keynes did not *want* anyone to dig holes and fill them. He indulged in a pleasant daydream of a world in which, when investment had been kept at the full employment level for thirty years or so, all needs for capital installations would have been met, property income would have been abolished, poverty would have disappeared and civilized life could begin. But the economists took up the argument at the point where it had broken off before the war. When there is unemployment and low profits the government must spend on something or other —it does not matter what. As we know, for twenty-five years serious recessions were avoided by following this policy. The most convenient thing for a government to spend on is armaments. The military-industrial complex took charge. I do not think

services, but here too the demands of the system for accumulation and defence, and the suitability of central planning to accomplish some ends rather than others, have also left men the servants of the system, and the satisfaction of their basic needs more a means to their participation in production than an end.

Proposals for basic needs strategies have commonly accepted that the needs must be satisfied by improving the functioning of the economic system, naturally with major reforms, but with the expansion of employment affording adequate incomes still regarded as the central mechanism for accomplishing the human purpose of development. This is legitimate up to a point, but from the standpoint of the present paper it is essential to distinguish clearly the different reasons why the expansion of employment is expected to enhance the satisfaction of basic needs, to question whether expansion must necessarily amount to maximization, and then to consider whether a different conception of meaningful human activity may not be required as a corrective to the subjection of human beings to systems that exact such a high price for their erratic and frustrating responses to needs. What people *do* and their satisfaction with what they do are just as important as

it plausible to suppose that the cold war and several hot wars were invented just to solve the employment problem. But certainly they have had that effect. The system had the support not only of the corporations who made profits under it and the workers who got jobs, but also of the economists who advocated government loan-expenditure as a prophylactic against stagnation. . . . So it has come about that Keynes' pleasant daydream was turned into a nightmare of terror." Joan Robinson, "The Second Crisis of Economic Theory", *The American Economic Review*, May 1972.

what they *receive* and their satisfaction with what they receive.

One cannot lightly propose a revolution in the work ethic as motor of development. Explorations along these lines risk intoxication with dreams of technological abundance and dreams of the painless emergence of a creative and altruistic new man. Nevertheless, for better or worse, the traditional carrot and stick of the economic systems are beginning to fall into discredit, and present levels of productive and innovative capacity, even in semi-developed societies, should make it possible for these societies to begin to separate the obligation to work in 'gainful' activities from the right to satisfaction of basic needs. In Latin America, the exceptionally low rates of participation in the labour force, the unproductive and precarious character of much of the existing employment, the prospect of increasing pressures on the system from women and educated youth unable to find a satisfactory entry, make the achievement of conventionally-defined 'full employment' improbable¹² and the quest for original solutions, giving due weight to all the social functions of employment, particularly urgent.

The main functions of employment can be summed up as follows:

- (a) To produce goods and services and perform the social roles valued by the society;
- (b) To give individuals and families access to incomes enabling them to satisfy their needs and wants;
- (c) To enable the individual to enter into relationships with the social

¹² See Charles Rollins, "Population and labour force in Latin America: some simulation exercises", *CEPAL Review* N° 3, first half of 1977.

order, interpret his interests in its maintenance or transformation, associate himself with a class or reference group, and acquire organizational ties;

- (d) To enable the individual to meet psychological needs for meaningful activity, self-realization, creativity, and status as family breadwinner.

The extent to which a given employment situation fulfils all of these functions is inevitably uneven, whether assessed from the standpoint of the individual or from that of the society, and this unevenness is bound to be accentuated by rigidities and discontinuities in the labour market such as prevail in Latin America. Some occupations (e.g., that of the plantation worker) can be satisfactorily productive but wretchedly paid, offering the worker no opportunity to participate actively in the society and no sense of meaningful human activity. Other activities (e.g., the publicist's, certain bureaucratic posts) can be highly paid and conducive to active identification with the society, but contribute little to a sense of personal achievement, and are irrelevant or negative in their relation to the meeting of basic needs. Further examples of incongruities in fulfilment of the basic functions of employment can readily be imagined.

From the policy standpoint, the relative importance of these functions and the possibility of taking them into account as objectives varies according to the style and the level of development. At the most primitive level, the maximum contribution of all able-bodied persons to food production might be of overriding importance. At the other extreme, in a highly-productive automated, egalitarian, post-industrial society the main social policy preoccupation might

be with fulfilment of the fourth function. It can be assumed that any society that has achieved some degree of economic diversification and modern state apparatus needs to and has some ability to pay attention to all four functions. In practically all Latin American countries increases in production of basic goods—or products that can be exchanged for basic goods—and income distribution through employment will have to remain central concerns of policy through the foreseeable future, but exclusive concentration on these functions is not justified and might be self-defeating.

In all modern societies up to the present remunerated employment has been the principal means of accomplishing the first two functions for the bulk of the population, and it is generally also the most important means of accomplishing the last two—as far as they are accomplished at all. It is never the only means, however. The higher the level of productivity, the wider becomes the range of options for the role of employment in fulfilment of the functions, but even in societies at very low income levels other means can be important. Production of goods and services valued by a local group or by the State can be undertaken partly by volunteer labour, with proceeds going to the whole community rather than the direct participants, or the authorities can draft labour for public works. As economic growth proceeds the possibility of substituting capital and technology for labour increases, until in an automated production system the relevance of the number of workers to the volume of production may practically disappear. In any society above a bare subsistence level part of the income generated through employment is redistributed through mechanisms of

family and community solidarity. As the level of productivity rises the feasibility of redistribution through public institutions—social security, social services, social assistance—widens and such redistribution comes to be viewed as both a human right and a political necessity. At a sufficiently high level of per capita income, it is possible to make family livelihood practically independent of gainful employment, through guaranteed annual income policies, or a 'negative income tax'. As to the objectives of integration into the social order and self-realization, the range of alternatives to paid employment is obviously wide, even in the poorer societies. To the extent that production and income distribution objectives require that most of the population spend a large part of its life in gainful employment, social participation and self-realization naturally are hoped for from such employment, and it is a grave deficiency in the social system if most employment does not contribute to these ends. As leisure time increases and the proportion of the normal life-span spent in employment shrinks, the main responsibility for meeting the two ends has to shift elsewhere, but no society has as yet found satisfactory alternatives. The malaise deriving from this deficiency in the high-income countries, particularly in regard to the aging retired population, is well-known.

Optimal accomplishment of the four purposes of employment listed above does not in any society require either maximization of the time spent in employment by the whole population able to work, or maximum intensity of effort. In agricultural societies at low technological levels and with ample land for cultivation it may be essential that the whole population, including young children and the aged, contribute to the

productive effort, but this effort has wide seasonal variations in intensity and includes tasks that are not at all onerous. The early stages of industrialization with relatively simple productive techniques have also involved extremely long working days and extensive use of child labour, but these features seem to have been dictated by the patterns of control of the means of production and by cost-cutting competition between manufacturers rather than by their indispensability for maximum production.

In any case, as economic growth and technological innovation proceed, and as skill requirements in practically all occupational sectors rise, it becomes essential even in the interest of efficient production that part of the potential labour force be excluded from employment or helped to escape from it, and that the working time of the employed population be held well below the limits of physical endurance. In all modernizing societies a number of mechanisms appear through which the age span of the economically active population contracts at both ends, and the proportion of leisure time within the active age span increases, first in urban occupations, and later, as rural activities decline in relative importance and undergo technological and organizational changes, in the rural occupations also. The economic activity of women follows different trends, shrinking with the decline of agricultural and artisan-type activities carried on by the family as an economic unit, then increasing with changes in family size and modern urban occupational opportunities, but in practically all societies covers a shorter average time-span and a smaller percentage of the relevant age groups than does the gainful employment of males.

Ideally, the average age for entering employment should rise mainly because

the period of education lengthens and young people are thus better prepared for their future occupational roles. The average age for leaving employment should decline because the society is better able to support retirement pensions and offer meaningful activities for the persons whose contributions to production are no longer required. During the active span the contraction of the amount of time spent at work should respond to technological levels that permit adequate production and incomes without interminable drudgery. It is obvious that even in the more homogeneous and welfare-oriented of the high-income industrialized societies changes in employment patterns have not corresponded smoothly to these ideals, and in the larger, more internally heterogeneous societies the changes have been conflictive and frustrating enough to shake confidence in the future of the system. The system seems to demand from part of the labour force intense activity in order to earn incomes to provide a market for the goods it produces; and it renders superfluous other parts of the potential labour force, affording them, through the redistribution mechanisms of the State, a subsistence that may cover 'basic needs', but not the consumption wants that the system insistently promotes. It offers opportunities for meaningful human activities outside employment that are in practice accessible only to minorities.

The bringing of a higher proportion of the working-age population into gainful employment is not legitimately an end in itself, although it is understandable that the State, unable to balance the different reasons for wanting employment and with few effective means of making the economic system function for human ends, may not be

able to avoid treating it as such. Expansion of employment is really a means to various ends and at the same time can interfere with the achievement of other socially valued objectives. In Latin America, the definition of realistic employment objectives and instruments is complicated by the co-existence, in increasingly close contact and inter-action with one another, of widely differing technological levels, forms of organization of production, and ways of life, all of them subject to continually changing and increasingly pervasive external influences and constraints. Completely different employment policies might be appropriate for specific population strata and specific sectors of production and provision of services, but the impracticability of isolating the different strata and sectors from one another or from the external influences practically rules out the application of such policies.¹³

Arguments for use by the government of the policy instruments at its disposal to promote labour-intensive or 'intermediate' techniques assume that the primary function of employment is

¹³ Women's employment offers a particularly interesting example of complexities in determination of optimal participation in the labour force. Ideally, increased female participation should raise production, facilitate the performance of socially valued roles such as teaching and nursing, contribute to family income, enhance the capacity of women to participate on equal terms in social and political activities, and open to them wider opportunities for self-realization and creativity. Under present conditions of the labour market and the social order, however, increased participation by women might mean low-wage competition for jobs now held by males, thus increasing visible unemployment and depressing family incomes in the poorer strata, while overburdening women unable to escape from household maintenance, disrupting family organization, and reducing the quality of child care.

distribution of income rather than production. Although the arguments commonly imply that labour-intensive techniques are better suited to the production of goods meeting basic needs, and that a basic needs production strategy would automatically expand employment, this seems to be only partly true. Latin American policy-makers have shown an almost instinctive reaction against recommendations of this kind as implying the acceptance of technological backwardness and renunciation of eventual parity with the world centres as industrial societies. The present paper arrives at a similar conclusion from a quite different viewpoint, rejecting the supposition that maximization of gainful employment, whether technologically advanced or otherwise, is the most promising path to a better future.

The solution—at the level of general ideas—lies in the complementation of employment objectives by objectives for meaningful human activity. That is, the social order should guarantee to all adults and youth a right to engage in activities meaningful to themselves and to the society *and* to the satisfaction of their basic needs, within limits set by the productivity of the economy, irrespective of gainful employment status. Production would be carried on by the most efficient techniques available, given relative scarcities of capital, labour, and technical-managerial talents, with a persistent effort to minimize routine drudgery and maximize opportunities for creativity and pride in work. The whole adult population would encounter alternative combinations of activities matching their interests and qualifications, and designed to enhance these qualifications while meeting societal needs and preserving freedom of choice: for example, voluntary labour combined with educa-

tion, ranging from preventive health work, child care, services to the handicapped and the aged, and cultural activities, to harvest labour, repairs to urban or rural infrastructure, and other manual work. As far as possible, the dividing line between employed and unemployed, intellectual and manual workers, 'productive' work and household work would disappear.

There is nothing new in the posing of such a utopian objective for human societies, and the way to it is now less clear than it seemed to certain social thinkers of the nineteenth century. Ideologically coherent forces in each national society would have to struggle towards its achievement, probably over a long period, keeping within bounds the inevitable temptations to opportunism and to doctrinaire rigidity, and measuring progress in large part by the achievement of understanding and active participation on the part of the masses. A strategy of this kind is obviously far from the intentions and the capabilities of the forces controlling the State in most countries at present, and also of the counter-élites that aspire to supplant them. However, once the dominant forces in any society take seriously the satisfaction of basic needs, and find unacceptable the assistential-cum-repressive approach to the alleviation of poverty, they can hardly avoid tackling the questions of meaningful activity and participation.

The few national societies whose governments are making a serious effort to apply a basic needs strategy are also striving to universalize meaningful human activities, whatever terms they may use and however wide the gap between aspirations and realities. The effort can hardly stop short of the kind of egalitarian, participatory, non-capital-

ist society proposed by the Bariloche Foundation as a condition for Latin America's meeting of basic human needs through its own efforts.¹⁴

4. Participation

The discussion now enters an area in which the gap between the ideal and the real is so wide, the temptation to evasiveness so strong, and the rehashing of verbal good intentions so distasteful that one approaches it almost with despair of saying anything new and useful. 'Participation' for present purposes means having "influence on the decision-making process at all levels of social activity and social institutions".¹⁵ 'Participation' is not coterminous with 'meaningful activity'; it is at least theoretically possible for the individual to be meaningfully occupied from his own standpoint and from that of the values of his society, without participating in or even being aware of the choices made by dominant forces in the society; and participation as a citizen obviously does not guarantee that the individual will find meaningful activity in the greater part of his life that is spent in other pursuits. Nevertheless, in societies such as those of Latin America it is reasonable to suppose that neither will advance very far without support from the other.

¹⁴ *Catastrophe or New Society? A Latin American World Model*, Ottawa, International Development Research Centre, 1976, pp. 24-26.

¹⁵ Carlo Geneletti, "The concept of participation: an evaluation", CEPAL/DRAFT/DS/125, August 1975.

Fernando Henrique Cardoso has summed up, at the end of a harsh diagnosis of the shortcomings of certain channels of participation in Latin America up to the present, the reasons for continuing to insist on it as an indispensable component of any acceptable image of the future. He fears that in default of the reactivation of the masses and without an anti-bureaucratic ideology based on individual responsibilities and awareness of social needs, the leap from what he calls 'patrimonialism' to technocratic corporativism may land the poor Latin Americans in a reproduction of the barbarous life of the 'concrete jungle' that so appalled the socialists of the nineteenth century. Unless society is revived by means of vigorous social drives for political participation and the definition of new kinds of controls applicable to enterprises, to cities, to the State and to the basic social institutions, there will be a risk that a horrifying new world may be created which will replace the city — once the forum of liberty — by Alphavilles endowed with every requisite for reproducing, through mass media technology and apathy, a 'frozen society' style.¹⁶

¹⁶ See Fernando Henrique Cardoso, *Autoritarismo e Democratização*, Rio de Janeiro, Paz e Terra, 1975, p. 163.

The International Labour Office has directed its attention to the same problem in more instrumental terms, in discussing implementation of its proposed 'basic needs' strategy:

"A weakness of many formulations of national development policy is that they are divorced from political reality. They tend to assume the existence of an autonomous State which pursues a generalized national interest as articulated by its technicians, independent of political constraints. . . . In order to put a plan into action account must be taken of the size and organization of the interest groups and regional coalitions which would benefit or lose from the proposed policies and the consequential changes in social status and political influence. . . . Because of the divergences between interest groups and within classes, governments often have some degree of flexibility in initiating policy and strategy changes. Their ability to implement them, however, is clearly related to their ability to promote consensus, weaken groups likely to lose from them and organize support from those who would benefit. . . . The main prerequisite for the effective implementation of this approach would thus appear to be an effective, decentralized and democratic administrative structure to translate policies into decisions and action, and mass participation in the development process by the poverty groups."¹⁷

This statement starts from a realistic formulation of the political problem and

¹⁷ *Employment, Growth and Basic Needs: A One-World Problem*, *op. cit.*, pp. 64-66.

ends by proposing three acts of faith: (a) that the proposals of the technicians interpret the national interest correctly; (b) that the State has a sufficient measure of rationality and autonomy to seek a political strategy making the proposals viable; (c) that decentralized, democratic decision-making and mass participation, once mobilized, will flow in channels indicated by the proposals and not in others. The statement exemplifies the aspiration to reconcile a technocratic utopia with a participationist utopia and the vacillation between the two that recurs throughout the explorations of 'another development', including the present text.¹⁸ The technocratic utopias imply that every problem has one optimal solution; participation should consist in the education and mobilization of the population to understand and apply this solution. The participationist utopias imply that various satisfactory solutions can emerge from the creativity of the people who need the solutions; that the flowering of collective creativity through the exercising of free choice is central to 'another development'; that technicians should take part as helpers without delusions of their own infallibility; and that in the last analysis people have a right to be wrong. Both utopias are ambiguous in their consequences for human welfare; neither is likely to impose itself over the long term, and it might be disastrous if one or the other did so; the tension between them seems to be necessary and permanent in the efforts of human intelligence to impose human purposes on the future evolution of society.

¹⁸ José Medina Echavarría, in "Las propuestas de un nuevo orden económico internacional en perspectiva" (CEPAL/Borrador/DS/148, November 1976), pp. 20-28, penetratingly discusses this question.

Extremely varied forms and tactics of participation have appeared in Latin America and been hailed by one sector of opinion or another as the key to authentic development. They range from national electoral democracy through mass interest-group organizations to local community organization and workers' management.¹⁹ At present, the shortcomings of all these forms are more evident than their achievements. Some have failed with cruel consequences for the masses drawn into them; others have persisted with extremely ambiguous consequences for development or egalitarian social justice; still others have remained stunted and localized. Two essentially élitist alternatives have gained strength from these shortcomings: manipulated mobilization backed by repression and strictly limited to objectives laid down by the dominant forces; and terrorist tactics intended to make the functioning of the repressive social order impossible. The fact that so many institutional forms of participation have been on the stage for some time and have left behind disillusionment, fear and suppressed resentments stands in the way of imaginative new efforts. The participation-minded planners and the masses both have reason to be wary. The invention of radically different approaches is unpromising. The national societies will continually have to return to a range of well-known institutions and techniques in the hope that they can be made to function better than hitherto. Even the technobureaucratic régimes recurrently try to use the same instruments for their own purposes and encounter some of the same stumbling-blocks as have their predecessors.

¹⁹ See *Social Change and Social Development Policy in Latin America*, United Nations

The shortcomings of the participatory institutions and initiatives can be summed up in a way that suggests an agenda for doing better:

(a) At the national as well as the local level they have been superimposed on political and economic structures with which they were incompatible. These structures might work badly without participation, but with it they could hardly function at all. The recurrent outcome has been that the participatory efforts have mobilized their enemies more effectively than their friends, have set in motion defence mechanisms (from the flight of capital to the discharge of workers and eviction of peasants) that hurt primarily the new participants, and eventually have been swept aside in a conjuncture of demoralization and confusion;

(b) The social groups enhancing their capacity to participate have naturally focused on consumption, whether in the form of housing, cheap food and transport, credit facilities for instalment buying, education or health services. The responses of the State have followed the line of least resistance, meeting the demands that involved least direct cost, and least opposition from other groups. The argument that participation would lead to mass understanding of the need for voluntary restraint of consumption in the interest of accumulation has proved inapplicable in the face of obvious waste and luxury consumption on the part of others backed by the whole array of stimuli of the 'consumerist' style of development;

publication, Sales N°: E.70.II.G.3, chapter XIX, "Popular participation in development"; and Marshall Wolfe, *El Desarrollo Esquivo*, Mexico, Fondo de Cultura Económica, 1976, chapter V.

(c) The various forms of participation and the participants themselves have focused on the extraction of benefits from the State or on neutralizing adverse State actions, even when this might seem alien to the logic of the specific form of participation – as in the case of workers' management and co-operatives. Thus, participation has meant increasing dependence, bureaucratization, and channels for control by the State, even when the initiative has come from social groups relatively hostile to the State. The well-known expansion of university-educated middle strata seeking posts in bureaucratic agencies charged with participatory activities or offering themselves as intermediaries on the side of the newly participating groups has favoured this trend;

(d) The participatory mechanisms have been able to incorporate the lowest strata of the national populations – the poor, oppressed, marginalized, or sub-proletarian – only to the extent that their participation has been manipulated or neutralized by co-optation of leaders.²⁰ Such participation has been quite unable to exercise the function of countervailing power, strengthening the government's disposition to undertake 'basic needs' strategy in the teeth of opposition from better-off groups, in the way envisaged in the ILO statement quoted above. Much the same thing applies at the local

²⁰ Carlo Geneletti has argued (in "The concept of participation: an evaluation", *op. cit.*) that participation means access to political power; those who have least power obtain least from the State as well as the social and economic system; thus the degree of participation can be measured by the benefits accorded by the State to each group. Since the State represents existing power relationships its efforts to mobilize those who lack power can be hardly more than pretence.

level; 'community development' programmes have as often given the locally powerful new ways of exploiting the poor as they have given the poor a stronger voice in the community. Some peasant movements and the well-known 'spontaneous' organizations of urban groups for land seizures, provision of community infrastructure, and negotiations with the authorities are partial exceptions, usually temporary but recurrent, and of considerable promise as 'seeds of change' if radically different overall styles of development eventually emerge. Up to the present, where the forces controlling the State have perceived such movements as a serious threat, they have been repressed without much difficulty; more often, the co-optation of the leaders and the limited and defensive objectives of the members turn them into legitimized and basically conservative neighbourhood organizations or mechanisms for control and relief of tension through assistentialism.²¹ Such participation has been assimilable as long as it has been localized, not calling for major changes in the access of the disadvantaged groups to employment and income. The national structures have

²¹ A paper on "Popular Participation for the Improvement of the Human Environment in Marginal Settlements", prepared by the Social Development Division of the United Nations Secretariat for the United Nations Conference on Human Settlements, Vancouver, Canada, May-June 1976, contains a good deal of information on these organizations, along with strong arguments for their positive role, given a minimum of governmental tolerance and aid. However, it also makes clear the ambivalent traits of official intervention; the dominance of self-serving leaders (*caciques*) integrated into the national political system; and the tendency for individuals who exploit the settlements (shopkeepers, etc.) to be most active organizationally.

been able to withstand a considerable broadening and diversification of the groups actively competing for higher incomes and status, with ambiguous consequences for the prevailing style of development, but have fallen into serious turmoil or hardened into repression at any prospect that the masses were about to enter the national political game in an organized and autonomous way. The result has sometimes been not only the violent exclusion of the masses but also the barring from effective participation of the middle and lower-middle strata that seemed to have achieved a permanent and secure share in decision-making.

Latin America confronts two kinds of polarization, both increasing in scale with industrialization, agricultural modernization and population growth, that should be equally daunting to the proponents of technocratic and participationist utopias:

(a) Between the population groups already sharing to some degree in the fruits of economic growth, in access to 'modern' or 'formal sector' employment, in post-primary education, etc., whether or not the power structure and the dominant ideology permit them to participate politically; and the groups that have gained little or nothing, that participate politically either not at all or precariously and intermittently through local organizations, clientelism, or electoral support of populist movements. This kind of polarization, and the strategies proposed to overcome it, have been recurrent themes of the present paper;

(b) Between urban agglomerations on a scale unknown in the world up to the present, and highly dispersed rural settlements, both undergoing continual changes in patterns and functions. At the one extreme, the metropolitan area of Mexico City will have nearly 14 million

inhabitants by 1980, and in the unlikely event that present trends continue that long, nearly 32 million by 2000.²² São Paulo will have about 12.5 million in 1980, and could have 26 million in 2000; while the corresponding figures for Rio de Janeiro are 10 million and 19 million; for Lima 5 million and 12 million; for Bogotá 4.4 million and 9.5 million. While the other present megalopolis of the region, Buenos Aires, can expect a relatively low rate of growth, and only two other cities (Caracas and Santiago) are likely to pass the 5 million mark by 2000, the total number of cities with more than one million inhabitants will be 25 in 1980 and probably around 50 by 2000. At these and smaller city sizes one can expect considerable diversity in rates of growth and in functions, depending on changes in technology, in transport and trade networks, and in the consumption patterns (including consumption of leisure time) imposed by the styles of development: specialized industrial centres, agricultural frontier marketing centres, mineral exploitation centres, political-administrative centres, and resort centres. In all of these urban types, in-migrants will greatly outnumber natives; only certain provincial capital and 'museum cities', of small consequence in the overall trends, might be able to maintain demographic and social structural continuity. The forms

²² These figures are taken from "Trends and Prospects in the Population of Urban Agglomerations, 1950-2000, as assessed in 1973-1975", prepared by the Population Division, United Nations Secretariat (ESAP/P/WP.58, 21 November 1975). The CEPAL/HABITAT/CIDA project, "Problemas Sociales del Ambiente Humano en América Latina" is elaborating a classification of settlement types drawing on the same information. See also *Desarrollo y cambio social en América Latina*, Cuadernos de la CEPAL, N° 16, Santiago, Chile, 1977.

taken by political participation outside the huge multifunctional agglomerations will depend in part on the kind of population attracted by the specialized functions. At the other pole, the rural and small town population will doubtless continue to grow slowly in some countries, becoming stationary or declining in others, but will be far from static in spatial distribution, social structures, and life styles. It will be increasingly dominated by urban influences, but will manifest peculiar combinations of isolation and horizontal mobility, gaining access to some features of modernization but not others. While the population in the larger centres will continue to have a disproportionate representation of young adults, outmigration will continue to leave this age group under-represented in the countryside.

As long as current styles of development prevail, the greater part of the 'beneficiary' population will be found in the cities, generally constituting a majority, while the greater part of the rural population will remain marginalized or 'critically poor', although the rural share of the total marginalized population will continue to fall, and the relative importance of 'beneficiaries' within the rural population may rise.²³ Both urban and rural populations will continue to be polarized, with large marginalized minorities in the first and large beneficiary minorities in the second. (However, in the countries in which the rural population still outnumbers the urban, a good

²³ The terms 'marginalized' and 'beneficiary' are used here for convenience, as emphasizing the aspects most relevant to the discussion of the well-known split between losers and gainers in the prevailing styles of development; the real divisions in urban and rural class structures are obviously a good deal more complicated.

many of the urban agglomerations, including some of the larger ones, may become dumping-grounds for a subproletariat expelled from the land but still mainly dependent on agricultural wage labour, as seems to have happened in some parts of Brazil, to such an extent that the marginalized part of their population becomes a majority.)²⁴ In the urban agglomerations, both the beneficiary and the marginalized population will be continually on the move as older neighbourhoods change their class composition or are eradicated by the expansion of commercial and industrial activities, and as transport networks encourage or discourage different patterns of urban sprawl. In the rural areas also, changing demands for crops and for labour, the opening-up of new lands, and the disintegration of traditional tenure systems will keep both the beneficiary and the marginalized population in movement.

Under these conditions, with the population groups segregated in different life styles by their income levels, but in continual contact with each other, in continual spatial movement and continually growing in numbers, a technobureaucratic State and ubiquitous mass communication media under the control

²⁴ See Paul Israel Singer, "Implicações Econômicas e Sociais da Dinâmica Populacional Brasileira", *Estudos sobre a População Brasileira*, CEBRAP, Caderno 20, São Paulo, 1975, for a comment to the effect that the urbanization of a part of the agricultural labour force brought in its train the unification of the urban and rural labour market. The new in-migrants settled on the outer fringes of the cities, in wretched living conditions, and were available at a low price for the capital invested both in agriculture and in urban activities or construction. See also Franklin de Oliveira, *A Tragedia da Renovação Brasileira, Minas Gerais e São Paulo: a Miséria dentro do Progresso*, Rio de Janeiro, Civilização Brasileira, 1971.

of the State might well become the only effective unifying factors, ushering in the kind of anomic society depicted by Cardoso in the quotation above. However, the consolidation of centralized technobureaucratic controls over such a population may not in the long term prove any easier than the consolidation of the decentralized and democratic mechanisms for decision-making called for by 'another development'. One can expect mutations of interest-group organizations, local community defence organizations, and religious as well as political movements offering security and hope to emerge continually, react in the most diverse ways to 'future shock', and confront continual efforts at control and manipulation from the national centres of power. Probably none of these forms of participation will actively involve the majority, either in the beneficiary or the marginalized population, at any one time. One can expect the nuclear family to continue to struggle with the impossible task of socializing children for a future in which most of them will have to form new families in settings completely different from the 'family of orientation'.²⁵ One can expect the mass communication media and the educational systems to transmit messages even more diverse and contradictory than at present, partly under the influence of the 'seeds of change' transmitted from the central industrial or post-industrial societies, partly under the influence of domestic crises of consumerist development and incapacity of the labour market to absorb the output of the educational systems. Governmental

²⁵ See Carlos Borsotti, "Notas sobre la familia como unidad socioeconómica", *Revista Paraguaya de Sociología*, N° 36, May-August 1976.

efforts to regiment these messages in the interest of a determined style of development may curb the diversity but probably not eliminate it for very long.

One comes back to the not very original propositions that progress toward authentic participation in decision-making will require: (a) simultaneous progress toward a style of development giving priority to basic needs and meaningful human activity; (b) vitality and adaptability in all the organizational forms of participation now on the stage, none of them likely to become panaceas, all of them susceptible to distortions; (c) the marriage of an intellectual élite consciousness and a mass consciousness, both of which are now fragmented and far from accepting the full implications of 'another development'. The attractiveness of idealized versions of the Chinese style of development, even in sectors that have no sympathy for the ideological basis and the political tactics associated with the style, suggests a widening intellectual awareness of what must be done, but no workable idea of how to go about it (and who is to go about it) in the Latin American circumstances of dependent semi-development.

The future can be expected to bring certain harsh lessons insistently and repeatedly to the attention of all strata of the population. If conclusions consistent with the values of 'another development' are gradually to permeate popular consciousness, the minorities that are already reaching these conclusions must undertake a task of conscientization without dogmatism, insisting on the long term non-viability of present trends, risking some exaggeration and over-simplification, but trying to stay well this side of catastrophism, and maintaining sufficient historical consciousness to remember that the future

will always be largely unexpected, that the challenges to human societies are not so much overcome as transformed into new challenges, that 'development' or 'history' does not move from a 'beginning' to an 'end' in utopia or disaster, and that inefficiency and injustice in the functioning of a social system are not sufficient proofs that it cannot continue to function.

Participatory development requires new ways of thinking throughout the national society, and these new ways are possibly coming to birth in a confused and contradictory fashion. The present popularity of speculations on the future, the controversy over 'another development', the proliferating international campaigns on the human environment, habitat, population, poverty, hunger, sexual and racial equality are all contributions to this process, however misdirected or evasive some of their manifestations may seem. It is clear that popular consciousness, giving at least partial assent to militant minorities, is now setting limits to the functioning of the centralized industrial societies that some of the dominant forces in them find deeply alarming — and that inspire the latter, among other things, to devise counter-utopias demonstrating that the only way to achieve the objectives of the campaigns is unfettered economic expansion. Similar currents are agitating technobureaucratic and academic circles in the rest of the world, torn between anxiety to preserve the previous myth of development; suspicion of the motives of 'anti-growth', conservationist and redistributionist campaigns emanating from the world centres; and awareness that somehow their thinking and their policies must incorporate the new objectives.

We know much less about the real reception of the newer preoccupations in

different strata of the populations of the peripheral countries, although generalizations are plentiful. The upper and middle strata cannot avoid some awareness of the questions through the mass media, but probably are even less disposed to draw conclusions relating to their own life-styles than are their counterparts in the central countries; their immediate concerns are to broaden their entry into the consumer society and influence the State to ward off threats from below. It is reasonable to suppose that the masses of the population are also preoccupied by immediate problems of livelihood and security, but that their material expectations, even in the unevenly modernized, semi-developed societies, remain modest. The new preoccupations may add something to the egalitarian ferment that has long been at work among them, but the consequences can only be guessed at, particularly in settings in which rapid advances in popular mobilization have been followed by sudden exclusion. One can suppose a widespread anxiety, only partly conscious, for some meaningful interpretation of what is happening, allowing the individual and family to relate themselves to an image of the future, something more satisfying than the ceaseless struggle to make ends meet. The response, however, may take messianic or xenophobic as well as more conventional political lines.

Earlier papers in these series of explorations of styles of development have criticized the use of the term 'we' by self-appointed intellectual spokesmen for the impoverished masses.²⁶ One should be particularly wary of attributing a common awareness, uniform

²⁶ See Marshall Wolfe, "Approaches to development: Who is approaching what?", *CEPAL Review*, No 1, first half of 1976.

aspirations, and capacity for organized action to broad population categories: *the poor, the youth, the women, the workers, the peasants*, etc. Some of these categories constitute social classes with a bent to self-identification and common action; others may be more real, as sources of self-identification, to the eye of the observer dealing with statistical aggregates, than to the supposed members. The preceding paper discussed the limitations of 'poverty' as a frame of reference for group self-identification, and a monograph by Aldo Solari has ridiculed over-generalization on the aspirations of 'youth'.²⁷ Individuals falling into such broad categories may shift among half a dozen contradictory self-identifications, or have no self-identification disposing them to participate in group action, but declarations deriving from the international movement toward 'another development' commonly assert that such broad categories are making demands on society that only minorities among them have dreamed of. As a corollary, it has been proposed that such categories name representatives to sit with government delegates in international conferences to make their supposed demands heard. One can justify such reification of broad population categories as a tactic designed to create the group consciousness that it assumes already to exist, a deliberate self-fulfilling prophecy. This is undoubtedly happening on a significant scale, and is one of the ways in which variants on the idea of 'another development' are penetrating popular consciousness. It is natural for

²⁷ Aldo Solari, "Algunas reflexiones sobre la juventud latinoamericana", *Cuadernos del ILPES*, Series II, N° 14, Santiago, 1971.

the movements convinced that 'something must be done' to project on the social groups for which they feel particular empathy their own values and aspirations. As a guide to political action depending on the real readiness of broad population categories for mobilization, however, the attitude can be disastrously misleading. First, it can obviously lead to over-confidence, defeat, and disillusionment, if the vanguard assumes a mass following that is non-existent, only superficially interested, or really pre-occupied by questions that the vanguard has not understood. Second, the supposition of common perceived interests within broad population categories masks real and perceived conflicts of interests within the category, such as those between different kinds of 'critically poor' and 'relatively poor'. The result is likely to be an alliance between external spokesmen—governmental or otherwise—and the most articulate elements in the population category, excluding or manipulating the remainder.

There can be no substitute for humility and realism in the elite consciousness that tries to serve the consciousness of the masses, and these qualities have been in short supply up to the present. The cause of participation has suffered from excessive manipulativeness, on the one hand, and from over-confidence in uniform mass readiness to participate on the other. It has been associated with excessive confidence in the problem-solving ability of the State. This in turn leads us to the topic of self-reliance, even more venerable and ambiguous than that of participation, and now coming back to the foreground after years of relative neglect.

5. Self-reliance

The theme of self-reliance, like the other broad guidelines to 'another development' discussed in this paper, has reappeared as a dialectical reaction to the preponderance of its opposite in the real trends of economic growth and social change. The terms in which it is imposing itself as a radical criticism of these trends show interesting parallels between the international, the national, the local-community, and the family-individual spheres of action and interaction. The relationships of dominance and dependency have become so frustrating to major forces in central as well as peripheral countries, and the possible consequences of continually rising indebtedness, continually ramifying activities of transnational enterprises, and continual shocks from the economic and political rivalries of the world centres have become so ominous that régimes of many different complexions are seeking means of enhancing their autonomy, tailoring their plans to their internal resources, if only for the purpose of strengthening their bargaining power in the negotiations over a new international economic order. Meanwhile, the inability of the developmentalist-welfare State to satisfy all the demands made on it is generating a reaction on the part of national political leaderships, aiming or pretending to divest the State of some of its responsibilities through controlled decentralization, as well as on the part of different sectors of the public, from which rises a chorus of partly contradictory accusations against the fiscal voracity of the State, its paternalism,

bureaucratization, failure to solve problems, and inability to provide efficient services or sufficient jobs. These reactions are evident in what might seem to be model welfare states. They should be particularly acute in semi-developed countries that have taken over the full accoutrements of the modern State without the command over resources, administrative capacities, or social consensus needed to make them function for the general welfare. In national societies at all levels of development, the resulting frustrations and fears have given renewed vigour to very diverse ideological and religious currents—cultural-nationalist, liberal, communitarian, anarchist—that for diverse reasons reject centralization, regimentation, paternalism, assistentialism, 'mass society', and other contraries to self-reliance. Meanwhile, the momentum of the forces making for national entanglement in the web of dependency and human entanglement in the web of technobureaucracy continues, checked at some points and gaining even more strength at others.

The following quotations sum up the positive reasons for insisting on self-reliance:

"If development is the development of man, as an individual and as a social being, aiming at his liberation and at his fulfilment, it cannot but stem from the inner core of each society. It relies on what a human group has: its natural environment, its cultural heritage, the creativity of the men and women who constitute

it, becoming richer through exchange between them and with other groups. It entails the autonomous definition of development styles and of life styles. . . . it does not ask the question 'how much can we get through exchange', but 'how much can we produce ourselves or with others'. Thus, the basis is laid for a search for new resources, for utilizing known resources in new ways and, sometimes, for questioning the need for the product. . . . A self-reliant society is able to stand up better to crises: it is self-confident and has the means to sustain its dignity."²⁸

"Since this entails trying many different paths, so that the law of diversity may operate and there may be a good chance that one is going in the right direction (that is, will not end up in a blind alley), a practical conclusion immediately becomes evident: it is necessary to be nationalist, or at least 'regionalist'.

In point of fact, acceptance of a universal culture means, from this point of view, putting all the eggs in one basket: a risk that should not be run, for although it may somewhat increase the likelihood of gain, it makes the cost of losing infinite. Moreover, giantism reduces flexibility and the capacity for adaptation to unexpected changes."²⁹

The positive case for self-reliance thus links it to creativity and participation; it assumes that neither the national society nor the individual will reach their full potential without making their own decisions and taking the consequences. The Dag Hammarskjöld Report couples this with the supposition that all societies will eventually pool their self-reliance in a highly co-operative and interdependent world order responding to common values. The Varsavski formulation is somewhat closer to the survival of the fittest; it is up to each society to demonstrate that its own path is a valuable contribution to a human future of continued diversity and unending new challenges; if some cannot meet the challenges, a benevolent world order is not going to save them.

Both quotations hint at the negative case. Crises are going to come; the greater the training in self-reliance the greater the probability that the society or group or individual will surmount them. The national society can reasonably count on a certain amount of international aid if its leaders set out to transform the style of development; it can also expect a certain amount of obstruction. It will be able to use the one and cope with the other to the extent it reduces its vulnerability and increases its self-sufficiency, whether alone or associated with others in a like position.

²⁸ See *What Now? Another Development*, *op. cit.*, pp. 34-35.

²⁹ Translated from Oscar Varsavski, *Proyectos nacionales*, Buenos Aires, Ediciones Periferia, 1971, p. 228.

Fiscal policy and integrated development

*Federico J. Herschel **

The aim of the present article is to offer an overall picture of the relation between fiscal policy and economic development in Latin America during the last few decades, combining a description of policy proposals with a critical evaluation of their orientations and results and presenting suggestions for action. It begins by demarcating the actual content of fiscal policy and depicting the more general features of recent economic development, and goes on to analyse on this basis, critically and in detail, the proposals for tax reforms arising out of the conferences on fiscal policy held between 1961 and 1972 in Buenos Aires, Santiago, Chile, and Mexico City. Although a significant and cumulative contribution has been made by each and all of them to the development of fiscal policy in Latin America, their recommendations are open to some objections, to the effect, for instance, that they obscure the importance of public expenditure and disregard political questions.

After rapidly reviewing the relation between fiscal policy and development in the light of events in some of the developed countries, the author concentrates his attention on the analysis of the results achieved by fiscal policy in respect of redistribution and investment. Lastly, he puts forward his own fiscal policy proposal, which is oriented more towards redistribution than towards private investment incentives, and appraises its probable political viability.

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1. The concept of fiscal policy and its objectives. Fiscal reform

Surprising though it may seem to some, and to others, on the contrary, almost too obvious to mention, a necessary first step is to indicate the concept of fiscal policy which will be used in this study. Fiscal policy is interpreted here as the use of the instruments constituting the budget, in a broad sense which comprises not only taxes but also expenditure, financing of public enterprises, management of the public debt and financing of the deficit in order to attain the government's objectives.

Such a concept is different from that prevailing in the treatises which have appeared in the Anglo-Saxon countries, or in French studies. In the former, fiscal policy is seen as the use of public finance instruments purely for stabilization purposes, although growth is sometimes included, but always viewed globally;¹ in the latter, fiscal questions are associated exclusively with the tax field.

¹ See, for example, the following works: Richard A. Musgrave, *The Theory of Public Finance*, New York, McGraw Hill, 1959, in which the author considers fiscal policy in the context of compensatory finance, and thus defines it as measures which involve tax or public expenditure action but do not alter the structure of the financial liabilities (p. 528); John F. Due, *Government Finance: Economics of the Public Sector*, Homewood, Illinois, R.D. Irwin, Inc., 1968, where the definition given is that the term fiscal policy (or stabilization and growth policy) refers to adjustments in government expenditure and income in order to achieve greater economic stability (p. 207); Charles M. Allan, *The Theory of Taxation*, Harmondsworth, Middlesex, Penguin Books, 1971, p. 187; Alan S. Blinder and Robert

Since policy consists, as already stated, in the use of a number of government instruments for achieving certain official aims², it forms part of economic policy; and the aims of both are therefore identical. The fact that all economic policy instruments pursue the same ends does not mean that some instruments are not more efficient than others for specific purposes. In a situation of extreme necessity, such as that of a city under siege, even a liberal economist like Lord Robbins admits that rationing would have to be adopted. In normal times, national defence is basically undertaken by means of public expenditure, except in the case of military conscription; monetary and credit policy can play only a subsidiary role in this area.

In line with this view, the same relationship exists between fiscal policy and finance as between economic policy and economic theory.

The instrumental nature of the means used and the possibility of differences in their efficacy should not hurry us into two erroneous conclusions:

M. Solow, "Analytical Foundation of Fiscal Policy", *The Economics of Public Finance*, Washington, The Brookings Institution, 1974, p. 4. A similar approach to that adopted in the present study may be found in Victor L. Urquidí, "La política fiscal en el desarrollo económico de América Latina", *Ensayos de Política Fiscal* (ed. H. Assael), pp. 46-53; David T. Geithman, "Fiscal Policy in Latin America: An Overview", *Fiscal Policy for Industrialization and Development in Latin America*, compiled by D.T. Geithman, The University of Florida Press, 1974, p. 1; and *Fiscal Policy for Economic Growth in Latin America*, papers and proceedings of a conference held in Santiago, Chile, December 1962 (organized by the OAS/IDB/CEPAL Joint Tax Program), Baltimore, The Johns Hopkins Press, 1965.

²E.S. Kirschen *et al.*, *Economic Policy in Our Time*, Amsterdam, North Holland Publishing Co., 1964, vol. 1, p.3.

(a) Their essentially instrumental character does not mean that the distinction between instruments and objectives is absolutely rigid. In Germany, for example, economic neo-liberalism distinguishes between instruments consistent and not consistent with a market economy and in principle rejects the latter—for example, all State interventionism, welfare-State employment programmes, and in general any kind of State control. Without going to these extremes, it is by no means surprising that certain instruments should be repudiated, as, for example, drastic changes, classed by Kirschen as institutional changes, which directly affect production conditions (land reform, the extension of public ownership).³ Therefore, it is neither desirable nor appropriate to talk about the ateleological nature of a tax system, even were it conceived only as a conceptual model. In the fiscal area too there are some instruments (for example, the fiscal deficit or the tax on capital) which are opposed more for ideological reasons or preconceptions than because of an analysis of their effectiveness. One may disagree entirely with this attitude, but it is a reality which must be taken into account;

(b) Since instruments do not produce one result only but have repercussions in different areas and affect different objectives, it is likewise a mistake in their case to apply a kind of division of labour, assigning to monetary policy, for instance, the stabilization objective and to fiscal policy the aim of development,⁴ since fiscal policy is capable of influencing not merely development but

³*Ibid.*, pp. 17 and 135-143.

⁴ILPES, *Discusiones sobre programación monetario-financiera*, Mexico City, Siglo XXI, 1972.

income distribution and stabilization as well. It may also be of advantage to use more than one instrument to attain a single goal. In short, all economic policy instruments should converge to achieve the set of objectives that make up government strategy.

Although they pertain to economic policy, fiscal instruments do not operate in the limited abstract world of *homo oeconomicus*; on the contrary, they are immersed in the realities of politics and of the power structure, and a concept which concerns itself only with economic aspects may often, either consciously or unconsciously, be prompted in fact by a specific line of policy or power group.⁵

It should be clearly understood from the outset that this study visualizes fiscal reform⁶ as a substantive transformation of the existing fiscal system. In order to determine the needs which have to be taken into account by such a reform, a brief diagnosis will be made of the most important aspects of the economic and social situation.

To undertake a genuine reform, such as is contemplated here, what is first of all needed is a firm determination to carry

it out, and above all, the political possibility of doing so, duly allowing for the power factors. With this in mind, in addition to the aforesaid diagnosis it would seem necessary to analyse certain salient features of fiscal reform efforts made in Latin America over the past 15 years, and to evaluate their results. It is of fundamental importance to determine the real possibilities or probabilities of a fiscal system's attaining the economic and social objectives defined later in this article. In other words, the aim is to determine the effectiveness of the instruments available in the fiscal area, to which end the experience of developed countries and the theoretical contributions relevant to the purpose of the present study will be briefly analysed. Some references will also be made to the socio-political circumstances required for putting the reforms into practice.

To clarify the concept of fiscal reform, the basic assumption adopted here is that it is capable in present conditions of operating within the existing system and modifying or helping to modify the prevailing style;⁷ but in the event of a change in the system it would play only a partial or supplementary role.⁸

⁵See *Power In Economics* (ed. K.W. Rothschild), Harmondsworth, Penguin Books, 1971, in particular the "Introduction" by K. W. Rothschild, and the article by E. Ronald Walker, "Beyond the market".

⁶For a more comprehensive treatment of the concept of fiscal reform, see F.J. Herschel, *Ensayos sobre política fiscal*, Madrid, Editorial de Derecho Financiero, 1975, pp. 491-498.

⁷See, in this connexion, Aníbal Pinto, "Styles of development in Latin America", *CEPAL Review* N° 1, first half of 1976, United Nations publication, Sales N°: E.76.II.G.2, p. 102.

⁸See, in this context, the reference to the application of a special tax on capital during the civil war in the USSR, and the use of income and property taxes in the NEP period to finance economic and cultural development, in *Soviet Financial System*, Moscow, Progress Publishers, 1966, pp. 78-80.

2. Diagnosis of the present situation

In contrast with the optimism created by the potentialities of economic development in past periods, considerable frustration is now being felt when the results achieved by economic development in Latin America are examined.⁹ This evaluation has been clearly and concisely summarized by Raúl Prebisch in the first issue of the *Review*.

(a) Development tends to by-pass a large part of the population. It is primarily restricted to the upper income strata, where the consumption patterns of the industrialized centres are imitated to an ever-increasing extent. The consumer society has thus established itself in the peripheral countries, and the middle income strata, seduced by its allurements, are striving to participate in it, and are succeeding. All this is in sharp and glaring contrast with the society of infra-consumption in which the lower strata of the social structure struggle to subsist;

(b) Despite these limitations, and accompanying the structural changes in the economic area, a phenomenon of major importance supervenes. The growth of democratic power in the middle strata and its extension to the lower strata—however limited it may be—results in a steadily widening gap between the eco-

nomie process and the political process;

(c) Advancing democratization demands a sharp rise in the rate of capital accumulation and a modification of the distribution system;

(d) Peripheral capitalism is inclined, by and large, to sacrifice democratization in one way or another for the sake of defending and promoting the consumer society.¹⁰

As regards paragraph (a), it must be borne in mind that unequal income distribution means sickness, premature death, illiteracy, over-crowding and under-nutrition. Any comparative reports by international agencies will bear out the truth of this statement, if it is not already obvious in the streets and dwellings, in the schools and hospitals.

This kind of evaluation, particularly as regards economic development in the strict sense, is of course not endorsed by the groups benefiting from the advances made.¹¹

¹⁰ See "A critique of peripheral capitalism", *CEPAL Review*, N° 1, first half of 1976, *op. cit.*, pp. 7 and 52-57.

⁹ See also CEPAL, *Long-term Trends and Projections of Latin American Economic Development* (E/CEPAL/1027), 3 March 1977, p. 2. In the development process a relatively high economic growth rate has been persistently accompanied by a distribution of income and property which has failed to evolve favourably for the less privileged groups representing at least half the population.

¹¹ See Marshall Wolfe, CEPAL, *El desarrollo esquivo: Exploraciones en la política social y la realidad sociopolítica*, Mexico City, Fondo de Cultura Económica, 1976, p. 22. An exclusive pursuit of economic growth calls for an exceptional combination of strength and continuity in the political system, with an adequate supply of resources and a favourable international situation. In the few cases where these requisites have been present, the exclusive pursuit of economic growth has not been counter-productive in its own terms, nor in terms of the interests of the groups controlling the process, albeit the results are open to criticism from the

With respect to paragraphs (c) and (d) of the analysis by Raúl Prebisch mentioned above, it should be noted that, in so far as the options derive from value judgements, those constituting the basic approach to the present study need to be brought into focus.

The basic hypothesis is that in the long run the democratization process will continue, and this involves raising the rate of capital accumulation and modifying the distribution system (paragraph (c)). Although at the present time it does not appear to represent the prevailing style, this hypothesis is nevertheless believed to be the right one, for while the approaches adopted need to be in firm touch with reality, the kind of false realism which assumes what exists and is dominant today to be permanent, and visualizes the future as a mere extrapolation of the present, is rejected here. On the contrary, the present is viewed in terms not only of itself and of the past, but also of the future. To grasp and achieve what is real and what is possible, it is necessary to include a component of what is today apparently utopian and impossible, but will be possible tomorrow.¹²

A second postulate is the need for an integrated development process in which it is at once viable and desirable to advance towards all the desired goals.¹³ It may probably be difficult to attain the

standpoint of human well-being and the values of equity, and although, furthermore, it is doubtful whether the resulting tensions will prove manageable over the long term.

¹² Marcos Kaplan, *Teoría política y realidad latinoamericana*, Archives of the Fondo de Cultura Económica, Mexico City, 1976, p. 64.

¹³ *Report on a unified approach to development analysis and planning, Preliminary report of the Secretary-General*, October 1973, cited in *El desarrollo esquivo*, *op. cit.*, p. 41.

objectives of economic development and social development (or, as Raúl Prebisch puts it, accumulation and redistribution), simultaneously and at all times, so that it would be preferable to aim at achieving them over the medium and the long term.

Hence it becomes necessary to indicate short-term priorities, with primary attention to redistribution and, above all, the elimination of critical poverty.¹⁴

Lastly, it should be noted that, even on the most optimistic assumption, the achievement of the objectives listed will require a particular combination of socio-political forces.

Once the basic premises have been established, their implications for fiscal policy must be clarified.

There is a very wide field of action for public expenditure policy,¹⁵ which should be financed basically by a progressive tax system to ensure that the social classes which are intended to benefit from greater social expenditure will not end up having to pay for it. Of course, the required economic development objectives would not be neglected, i.e., structural change, capital formation on a larger scale, improvement of

The objectives stated are: accelerated growth, structural changes, a more equitable distribution of income and wealth, the expansion of social services and protection of the environment (*ibid.*).

¹⁴ See the relevant projections given in Aníbal Pinto, "Styles of development in Latin America", *op. cit.*, pp. 127 and 128. By the year 2000 the primitive or subsistence stratum would disappear and a very high level of homogeneity and modernization would be achieved. According to another projection, there would only be a sharp reduction in that stratum.

¹⁵ See *Long-term Trends and Projections...*, *op. cit.*, p. 7.

the educational levels of human resources, wider national participation in technological innovations, etc.

This option, despite all the problems that are bound to arise, would be more feasible if democratic progress in favour of redistribution could be channelled into fiscal measures.¹⁶

Although from the next section onwards reference will be made only to the above-mentioned option, it is useful to indicate the trends observable at present. The problem of the disparity between the political and the economic process tends to be solved, with some exceptions, by abandoning democratic systems of government, a step which results in the following trends as regards fiscal action:

(i) The economic power groups will exert increasing pressure against any attempt at income redistribution;

(ii) The break-down of the political process is conducive to a deterioration of the situation of the low-income groups, as has been demonstrated in more than one Latin American country.

Thus the gap between needs and possibilities of meeting them widens increasingly; and this is in essence the basic problem of fiscal policy. It is, of course,

¹⁶ In this respect, the somewhat unfortunate experience of redistributive policy through wage increases should not be forgotten. See Ricardo French-Davis, "Mecanismos y objetivos de la redistribución del ingreso", *Distribución del ingreso* (ed. Alejandro Foxley), Mexico City, Fondo de Cultura Económica, 1974.

part of the problem of under-development, but it takes on an essentially fiscal character when, on the one hand, economic development needs (basic infrastructure, energy, transport and communications), the requirements of the power groups, or a modicum of satisfaction of social demands call for an increase in expenditure, while on the other hand the opposition to any additional taxation that may affect the economic power groups is exceedingly strong. Hence the fiscal crisis, which generally leads to financing by means of currency issues or external borrowing.

Thus, to give a few figures, within a decade (1960-1961 to 1969-1970) total public expenditure in Latin America as a whole (weighted average) climbed from 20.7 per cent to 25.7 per cent of the gross domestic product, while taxes were raised from 14.4 to 17.2 per cent. Concurrently, there was an impressive increase in the external public debt, from 5 108 million dollars at the beginning of 1960 to 15 389 million at the beginning of 1971.¹⁷

As noted earlier, consideration of the possibilities of fiscal reform should take recent historical experience into account. The following sections of the present study will deal with this subject.

¹⁷ CEPAL, *Latin America and the International Development Strategy: First Regional Appraisal* (E/CN.12/947), 5 February 1973, p. 184.

3.

The first conferences of the Joint Tax Program. Conferences in Buenos Aires and Santiago, Chile

There had been interesting previous attempts to advocate changes in the fiscal system in relation to economic development needs,¹⁸ but an overall and more integrated approach emerged from the Declaration of Punta del Este, in which the 21 countries of Latin America undertook to reform their tax laws, demand more from those who have more, severely penalize tax evasion, and redistribute the national income to benefit the neediest, while at the same time promoting saving and the investment and reinvestment of capital.¹⁹

The joint Tax Program, originally established by OAS, IDB and CEPAL, held its first conference on tax administration in Buenos Aires in 1961.

Obviously, the efficient implementation of tax policy requires the proper operation of the bodies concerned with the collection and control of the taxes which flow or should flow into the Treas-

ury. Thus, it is important to stress the negative significance of the complexity, multiplicity and dispersion of tax laws, the inadequacy of the accounting registers and the lack of proper training for tax officials.²⁰ Although it is outside the scope of this study to go further into essentially administrative topics, two subjects discussed at the conference are worth special mention:

(1) The calculation of the distribution of the tax burden; and

(2) Prevention of income tax evasion.

In connexion with the latter subject, as might be expected, strong emphasis was laid on the legal and administrative aspects of the fight against evasion, which of course is not surprising in view of the nature of the conference. Nor would it be fair to deny the importance of adequate penalties and suitable detection mechanisms among the measures required to combat evasion.

Valuable as were the discussions on this subject, the following critical observations would seem relevant, not as a facile product of mere hindsight but, on the contrary, because such progress as has admittedly been made since then is

¹⁸ See John H. Adler, E.R. Schlesinger and E.C. Olson, *Public Finance and Economic Development in Guatemala*, Stanford University Press, 1952; *Taxes and Fiscal Policies in Under-Developed Countries*, United Nations publication, Sales N°: 1955.II. H.1; Carl Shoup *et al.*, *The Fiscal System of Venezuela - A Report*, Baltimore, 1950; Henry C. Wallich and John H. Adler, *Proyecciones económicas de las finanzas públicas: un estudio experimental en El Salvador*, Mexico City, Fondo de Cultura Económica, 1951.

¹⁹ Quoted in Richard M. Bird and Oliver Oldman, "Tax research and tax reform in Latin America - A survey and commentary", *Latin American Research Review*, vol. III, N° 3, Summer 1968, pp. 5-23.

²⁰ Address by Mr. Manuel Rapoport, Director-General, Internal Revenue Administration, at the closing meeting on 19 October 1961. See *Problems of Tax Administration in Latin America*, papers and proceedings of a Conference held in Buenos Aires, Argentina, in October 1961, Baltimore, The John Hopkins Press, 1965, pp. 548-555.

far from having radically altered the situation prevailing at the time:

(i) Evasion does not occur only in income tax. Some of the few existing studies show that although it is found on the largest scale in personal income tax, in the case of other taxes it is by no means insignificant; it was estimated that there was considerable evasion of social security contributions in Argentina²¹ and of sales tax in Chile;

(ii) Incidental reference was made to an empirical study undertaken by the United States. Fifteen years later, the quantitative estimates prepared in Latin America are still few in number; not even the developed countries, except for one or two like the United States and Canada, make frequent quantitative assessments, and furthermore, no standard methodology is followed, which makes comparisons between countries difficult;

(iii) Avoidance of tax (or legal evasion, as it is also called) was hardly mentioned. To generalize on the basis of an observation made for two countries in particular,²² it would seem reasonable to affirm that outright tax evasion is usually greater in countries in process of development, while avoidance is more prevalent in developed countries.²³ If this hypothesis is confirmed, however, it should not be concluded that avoidance

²¹ See F.J. Herschel, *Ensayos . . . , op. cit.*, pp. 256-274.

²² Namely, the United Kingdom and Israel (see A. Lapidoth, *Evasion and Avoidance of Income Tax*, Jerusalem, State Revenue Administration, 1966, pp. 13, 200-201).

²³ The following reasons may account for the difference: the rich countries have more large-scale enterprises which can afford tax advisers, while it may also be assumed that as a country develops, its laws too become increasingly complex, and this often facilitates tax avoidance.

—particularly if the term is interpreted in a broad sense— is not important. Quite the contrary: it appears in different forms and under different names, but is always aimed at reducing the tax burden, most frequently for the upper income groups;

(iv) The causes of evasion were not examined very thoroughly. In this field at least it is possible to point to some progress in the developed countries, as regards both analysis and empirical studies,²⁴ but analyses of this kind are practically non-existent in Latin America;

(v) Neither evasion proper nor avoidance occur in an isolated setting in which the defenceless taxpayer faces up to the tax-collecting ogre, nor are all the defects or shortcomings such as administrative and legal inadequacy and lack of entrepreneurial capacity or of trained technical specialists imputable to underdevelopment; here too it is the groups in power which are active and make use of such procedures to reduce their share of the tax burden.

The study of the distribution of the tax burden is related with one of the

²⁴ See, for the conceptual approaches, T.N. Srinivasan, "Tax evasion: a model", *Journal of Public Economics*, vol. 2, N° 4, November 1973; and for those of an empirical character, Joachim Vogel, "Taxation and public opinion in Sweden: an interpretation of recent survey data", *National Tax Journal*, vol. XXVII, N° 4, December 1974. In the first study, evasion is explained as resulting from a comparison made by the potential taxpayer between the cost of paying the tax on the one hand and the sum he would have to pay if he were discovered, weighted by the possibility of detection. The second study examines the reasons for tax evasion in Sweden on the basis of surveys, adducing the effects of the environment in which the possible tax evader is acting (influence of friends, colleagues, etc.), the complexity of the tax laws and the very high tax rates prevailing.

basic aims of fiscal policy –improvement of the distribution of income– and attempts to determine how far this objective is actually being achieved. In view of the importance of this question a special section will be devoted to it, with the further justification afforded by the significant advances made in this field. At this stage, however, none but the following points are worth mentioning:

(a) Prior to the Buenos Aires Conference, somewhat rough estimates of the distribution of the tax burden were prepared for only two Latin American countries;²⁵

(b) Since the conference was concerned with tax problems, the studies on distribution made practically no reference to the possible effect of public expenditure.

The second conference, which was held in Santiago, genuinely represents an important milestone in the evolution of fiscal policy in Latin America. It was attended by representatives of all the Latin American countries except Cuba, as well as by economists not only from Latin America but also from several developed countries. What is most important, however, is that specific conclusions were reached, and it was expressly stated that although the social, political, legal, and administrative characteristics of the various Latin American countries differed, recognition of that fact did not “imply a modifica-

tion of the objectives or a reduction of the required pace or pervasiveness of tax reform”.

As will have been gathered from the preceding sections, and as will become even more evident later, this is an essentially critical study for the following reasons: matters of great significance have frequently been examined somewhat superficially; the tendency has been towards extreme over-simplification; and according to the criterion followed here –that is, the value judgements adopted– too little attention has been paid to the necessity of improving distribution. The Santiago Conference merits a different evaluation, since many of the observations made there deserve full praise: the meetings were not confined to purely conceptual discussions but went as far as preparing a number of recommendations for possible practical implementation –not a very common achievement at a meeting of this kind– and the conclusions come close to forming a genuine plan of action. Moreover, the recommendations were of an essentially progressive nature in both senses of the word, i.e., not only by virtue of a general trend towards social change but also in the specific field of taxation where they advocated greater vertical equity, or, to employ equivalent but more frequently used terms, taxation based on the capacity to pay.²⁶ The following guidelines are particularly noteworthy:

²⁵ See *Public Finance and Economic Development in Guatemala*, *op. cit.*; and Carl S. Shoup, Lyle C. Fitch, Sir Donald MacDougall, Oliver S. Oldman and Stanley S. Surrey, “The Fiscal System of Venezuela – A report”, Baltimore, The John Hopkins Press, 1959. The author of the present study presented a preliminary estimate of the distribution of the tax burden in Argentina for the Buenos Aires Conference; see *Problems of Tax Administration in Latin America*, *op. cit.*, pp. 76-90.

²⁶ See *Fiscal Policy for Economic Growth in Latin America*, *op. cit.*, p. 419. The following is the text of the recommendations: (1) the reform, simplification, and up-dating of the system of indirect taxation; (2) the creation of a comprehensive unitary system of progressive personal income tax, which should include the taxation of capital gains both on movable and on immovable property, complemented by a

(a) The creation of a unitary system of progressive income tax to include the taxation of capital gains, supplemented by a net wealth tax (although the proviso "where feasible" was added);

(b) Higher taxes on urban and rural property;

(c) Strengthening of inheritance and gift taxation; and

(d) The cautious use of incentives.

The question is, therefore, whether these suggestions have been complied with, and if not, an explanation will have to be found for the failure in practice – although not necessarily the complete failure – to achieve objectives so extensively examined and, on the whole, so well conceived.

4.

Changes in tax systems after the Santiago Conference

A thorough examination of each country's tax system lies outside the scope of a study such as this. It would require a special investigation in every case, combining macro- and micro-economic aspects; it would also entail a study of the legislation in its material sense, i.e., covering decrees, regulations and resolutions, and also their effective application

net wealth tax where feasible; (3) the collection of more revenue from taxes on urban and rural property, additional to personal income taxes on the income derived from such property, and co-ordinated with other forms of special taxation on income from property; (4) the strengthening of the system of inheritance and gift taxation; (5) the placing of public enterprises on a self-sustaining basis through the adoption of adequate rates for services rendered; (6) the harmonization of the tax treatment of the income of international enterprises and the imposition of taxes on the income which residents receive from abroad; (7) the creation of a fiscal climate which, with the cautious use of incentives, will be attractive to the formation of private capital and its investment in productive enterprise; (8) the reform of budgetary practices and the inclusion in budgets of the operating results of autonomous or semi-public agencies; (9) the establishment of an objective and co-ordinated system of tax administration,

and implementation; it would have to analyse how far tax revenue is sufficient in relation to the possible growth of the public sector's needs, so that it would need to include an analysis of automatic flexibility and reaction capacity;²⁷ and of course it would also comprise a study of the impact of taxation on the private sector and of its implications.

A first overall view shows that the tax effort, in terms of tax revenue as a percentage of the gross domestic product for the region as a whole, has not been very significant, as is clearly seen from table 1. From 1960 to 1972 it grew from

using each tax to give more solidity to the others, so as to guarantee that the benefits of substantial reform will not be lost in administration.

²⁷ Automatic flexibility is understood here to mean the increase in revenue from a tax or group of taxes in relation to the gross domestic product with no changes in the laws (i.e., no changes in rates, deductions, exemptions, etc.) in a given period. Reaction capacity (ex-post-buoyancy flexibility), on the other hand, also considers the increase in revenue from a tax in relation to the product, but with the incorporation of that resulting from legal changes (e.g., an increase in rates).

Table 1
**LATIN AMERICA: TAX REVENUE, 1960 AND
 1970-1973^a**

(As a percentage of the gross domestic product at current prices)

| | 1960 | 1970 | 1971 | 1972 | 1973 |
|----------------------------|------------------|------------------|------------------|-------------------|------------------|
| Argentina | 14.0 | 15.2 | 13.0 | 11.2 | 11.1 |
| Barbados | ... | ... | ... | ... | ... |
| Bolivia | 7.9 | 9.2 ^b | 8.2 ^b | 7.5 ^b | ... |
| Brazil | 18.1 | 20.6 | 20.5 | 22.1 | 22.5 |
| Colombia | 9.7 | 11.8 | 11.8 | 11.1 | ... |
| Costa Rica | 12.1 | 13.9 | 13.7 | 13.8 | 14.8 |
| Cuba | ... | ... | ... | ... | ... |
| Chile | 16.5 | 18.5 | 18.6 | 16.8 | ... |
| Ecuador ^c | 12.3 | 13.3 | 15.5 | 15.9 | ... |
| El Salvador ^c | 10.9 | 10.3 | 10.4 | 10.6 | 11.5 |
| Guatemala | 8.6 | 8.3 | 8.4 | 8.3 | 7.9 |
| Guyana | ... | ... | ... | ... | ... |
| Haiti ^d | 7.8 | 6.0 | 6.0 | 5.9 | ... |
| Honduras | 10.7 | 11.9 | 11.4 | 11.0 | 11.6 |
| Jamaica | ... | ... | ... | ... | ... |
| Mexico | 7.5 | 8.8 | 9.0 ^e | 9.3 | 9.6 ^e |
| Nicaragua | 10.4 | 9.8 | 10.1 | 9.9 | 11.6 |
| Panama | 10.1 | 12.3 | 12.4 | 12.0 | 11.9 |
| Paraguay ^c | 8.6 ^f | 10.4 | 9.4 | 8.3 | ... |
| Peru | 13.0 | 15.4 | 15.0 | 14.9 | 14.6 |
| Dominican Republic | 16.5 | 14.8 | 15.0 | 14.0 | 13.0 |
| Trinidad and Tobago | ... | ... | ... | ... | ... |
| Uruguay | 15.4 | 17.4 | 17.6 | 15.3 ^c | ... |
| Venezuela | 12.8 | 12.6 | 15.3 | 14.7 | 16.4 |
| Latin America ^g | 13.0 | 14.3 | 14.3 | 14.4 | 15.0 |

Source: *Indicators of economic and social development in Latin America (E/CEPAL/1021)*, 18 November 1976.

^aExcluding social security contributions.

^bRevenue of treasury and of municipalities of La Paz and Santa Cruz.

^cCentral government only.

^dBudget income.

^eProvisional estimates.

^f1962.

^gExcluding Cuba and the English-speaking Caribbean countries.

Table 2
**LATIN AMERICA: DIRECT TAXES, 1960 AND
 1970-1973**

(As a percentage of total tax revenue)

| | 1960 | 1970 | 1971 | 1972 | 1973 |
|-----------------------------------|------|------|------|------|------|
| Argentina | 23.3 | 22.0 | 18.1 | 16.4 | 18.7 |
| Barbados | ... | ... | ... | ... | ... |
| Bolivia | 12.7 | 14.5 | 21.7 | 19.0 | ... |
| Brazil | 20.0 | 24.4 | 27.8 | 31.9 | 31.9 |
| Colombia | 51.4 | 47.5 | 45.8 | 45.5 | ... |
| Costa Rica | 16.0 | 23.2 | 23.9 | 25.5 | ... |
| Cuba | ... | ... | ... | ... | ... |
| Chile | 38.6 | 35.1 | 32.7 | 29.8 | ... |
| Ecuador | 14.7 | 20.9 | 29.0 | 28.6 | ... |
| El Salvador | 12.5 | 24.6 | 24.9 | 24.8 | 25.6 |
| Guatemala | 9.2 | 17.6 | 18.3 | 19.3 | ... |
| Guyana | ... | ... | ... | ... | ... |
| Haiti | 8.8 | 11.7 | 10.7 | 11.9 | ... |
| Honduras | 17.3 | 28.5 | 27.9 | 25.9 | ... |
| Jamaica | ... | ... | ... | ... | ... |
| Mexico | 34.3 | 45.8 | 44.9 | 46.8 | 45.2 |
| Nicaragua | 12.2 | 19.4 | 19.5 | 20.6 | 15.5 |
| Panama | 32.6 | 48.1 | 48.5 | 44.8 | 47.5 |
| Paraguay | 17.2 | 17.5 | 19.3 | 20.1 | ... |
| Peru | 38.1 | 36.0 | 31.0 | 35.3 | ... |
| Dominican Republic | 23.7 | 30.1 | 30.2 | 31.2 | 31.8 |
| Trinidad and Tobago | ... | ... | ... | ... | ... |
| Uruguay | 21.4 | 15.0 | 13.8 | ... | ... |
| Venezuela | 55.5 | 70.4 | 76.1 | 76.1 | 81.0 |
| <i>Latin America</i> ^a | 29.6 | 37.6 | 34.7 | 36.2 | ... |

Source: *Indicators of economic and social development in Latin America* (E/CEPAL/1021), 18 November 1976.

^aExcluding Cuba and the English-speaking Caribbean countries.

Table 3
**LATIN AMERICA: INDIRECT TAXES, EXCLUDING FOREIGN TRADE TAXES,
 1960 AND 1970-1973**

(As a percentage of total tax revenue)

| | 1960 | 1970 | 1971 | 1972 | 1973 |
|-----------------------------------|------|------|------|------|------|
| Argentina | 53.2 | 65.9 | 67.6 | 65.4 | 63.8 |
| Barbados | ... | ... | ... | ... | ... |
| Bolivia | 48.5 | 28.4 | 33.7 | 37.2 | ... |
| Brazil | 75.6 | 72.5 | 69.0 | 64.7 | 64.7 |
| Colombia | 22.8 | 30.8 | 33.3 | 35.0 | ... |
| Costa Rica | 20.5 | 42.6 | 44.8 | 50.9 | ... |
| Cuba | ... | ... | ... | ... | ... |
| Chile | 41.4 | 53.0 | 57.2 | 60.5 | ... |
| Ecuador | 38.2 | 29.4 | 31.9 | 33.0 | ... |
| El Salvador | 25.4 | 32.4 | 37.1 | 36.3 | 33.9 |
| Guatemala | 45.0 | 53.3 | 53.1 | 53.8 | ... |
| Guyana | ... | ... | ... | ... | ... |
| Haiti | 26.8 | 33.0 | 33.1 | 35.5 | ... |
| Honduras | 31.1 | 41.7 | 40.6 | 42.1 | ... |
| Jamaica | ... | ... | ... | ... | ... |
| Mexico | 43.4 | 43.4 | 45.8 | 44.5 | 45.5 |
| Nicaragua | 31.0 | 50.6 | 53.1 | 52.9 | 45.7 |
| Panama | 18.1 | 22.6 | 22.6 | 22.6 | 26.5 |
| Paraguay | 17.3 | 36.2 | 36.0 | 40.7 | ... |
| Peru | 39.1 | 39.4 | 43.8 | 43.7 | ... |
| Dominican Republic | 38.1 | 21.9 | 21.1 | 20.6 | 17.7 |
| Trinidad and Tobago | ... | ... | ... | ... | ... |
| Uruguay | 51.3 | 72.9 | 74.6 | ... | ... |
| Venezuela | 17.9 | 18.9 | 15.3 | 15.7 | 12.8 |
| <i>Latin America</i> ^a | 49.4 | 52.6 | 53.1 | 51.3 | ... |

Source: *Indicators of economic and social development in Latin America* (E/CEPAL/1021), 18 November 1976.

^aExcluding Cuba and the English-speaking Caribbean countries.

13 per cent to 14.4 per cent (or by a little over 10 per cent), reaching 15 per cent in 1973 (an increase of less than 20 per cent over the whole period). It should be borne in mind, however, that for the final years 1972-1973 the average for the region was influenced by the upswings in the tax revenue of Venezuela and Ecuador, due in part to the higher income from petroleum; in Brazil too the increase is noteworthy.

As regards the tax structure, in spite of an appreciable rise in the proportion of direct taxes—here again Venezuela's figures affected the total—indirect taxes are still predominant, as may be seen from tables 2 and 3. Thus, for the region as a whole the share of direct taxes is less than 40 per cent, and in none of the countries except Venezuela is it over 50 per cent.²⁸

The following structural factors observed in the tax system of the majority of the countries are also worthy of attention:

(a) The most varied forms of incentives have been intensively granted, often on a very general and indiscriminate basis;

(b) Direct taxes on wages are substantial, and even more so if contributions to the social security systems are included in this group.²⁹ In line with the

²⁸ Needless to say, this classification of taxes as direct and indirect is merely a first approximation, but since the category of direct taxes includes taxes on income and property it is an index, however imperfect, of the progressive character of a system. The degree of significance of this group of taxes also reveals—again as a first approximation—the degree to which development of the system is more advanced, since it makes greater demands on both tax administration and the taxpayer.

²⁹ The inclusion of such contributions in taxes is still a moot question. Cf. Richard M.

criterion adopted in the present study they have been considered as part of tax revenue, because expenditure includes the corresponding payments (services rendered);

(c) Only a few countries have been able to put into effect a genuine global income tax. The existence of bearer shares is one of the obstacles to its introduction;

(d) The agricultural sector's contribution to total revenue is usually rather small. Generally speaking, only export taxes are of any significance, and even then not always on a permanent basis. Over longer periods they are sometimes cancelled out by subsidies granted to the exporters concerned;

(e) Some progress has been made in taxing luxury goods, but on the whole their share in total taxes on goods and services is still small.

Any further evidence seems unnecessary in view of the facts already mentioned.³⁰ It may be interesting, however, to note the opinion of Adolfo Atchabahian, who was for several years Director of the OAS/IDB Joint Tax Program set up precisely for the purpose of carrying out studies to promote reforms in the Latin American countries. In his view, it might have been expected that the mere undertaking of the fiscal studies would be sufficient basis for arousing, in the countries to which they related, concern for change and reform

Bird and Luc Henry de Wulf, "Taxation and income distribution: A critical review of empirical studies", *IMF Staff Papers*, vol. XX, N° 3, November 1973, p. 657.

³⁰ Several points coincide with the findings of the study by Richard M. Bird and Oliver Oldman, "Tax research and tax reform in Latin America: A survey and commentary", *op. cit.*, pp. 5-23.

in respect of the shortcomings pointed out in the systems studied. This was far from the case. He felt certain that none of those fiscal studies, in itself and on its own account, had prompted the slightest legislative activity on the countries' part with a view to remedying structural shortcomings in their tax systems that the studies had pointed out. . . . Short-term problems were what had usually spurred the countries to request technical assistance from the Program.³¹

In the face of such a diagnosis, the reason must be sought for this somewhat unfortunate result. The Final Report of the Conference seems to provide a vital key to this question in the following statement: "The participants recognized that the social, political, legal, and administrative characteristics of the various Latin American countries differ and that fiscal reform, to be effectively put into practice, must be consonant with those local characteristics. However, recognition of such considerations does not imply a modification of the objectives or a reduction of the required pace or pervasiveness of tax reform. It is essential, if the goals of accelerated development and improved distribution are to be achieved, that countries overcome, by special efforts, such barriers as may in the past have prevented a comprehensive fiscal reform."³²

There is a contradiction in the paragraph quoted, and more important still, it proposes objectives which are difficult

³¹ See "La experiencia recogida en el desenvolvimiento del Programa Conjunto de Tributación OEA/BID", *Terceras Jornadas de Finanzas Públicas*, Faculty of Economic Sciences of the National University of Córdoba, Buenos Aires, Ediciones Macchi, S.A., 1971, pp. 209-210.

³² *Fiscal Policy for Economic Growth in Latin America*, *op. cit.*, p. 419.

to achieve within reasonable periods since they are not based on the real situation. The contradiction lies in maintaining, on the one hand, that fiscal reform must be consonant with local characteristics and, on the other hand, that such considerations do not imply a modification of the objectives or a reduction of the required pace or pervasiveness of tax reform.

As regards expenditure, socio-political factors are important in determining levels of illiteracy, infant mortality, malnutrition, etc. Some countries in the world – which obviously need not be enumerated – have shown that they can achieve an improvement in public health and education in spite of being poor countries whose per capita income is below that of virtually all the countries of Latin America. This means that it is not a low level of economic development that basically accounts for social underdevelopment. It is true, therefore, that "resistance by powerful pressure groups blocks the way to effective tax reform", as pointed out by Kaldor, and also hinders any effective social progress by means of augmented public expenditure.

N. Kaldor's study, for its part, provides additional backing when it states that from the standpoint of accelerated economic development the importance of public revenue could hardly be exaggerated. Irrespective of the prevailing ideology or the political colour of particular governments, the economic and cultural development of a country requires the efficient and steadily expanding provision of a whole host of non-revenue-yielding services – education, health, communications systems, etc., commonly known as 'infrastructure' – which require to be financed out of government revenue.³³ This statement is correct, of course, as regards the

existence of the needs, but it would be completely false to assume—except in a few cases—that the authorities are actually prepared to satisfy them properly within a reasonable period. In other words, to achieve the provision of educational, health and housing services for the broad masses in the Latin American countries—again with some exceptions—is not a matter independent of the political system or the power structure.

The following is another possible explanation of the scant practical success of the Conference.

Although an interesting study by John Adler³⁴ was examined and some isolated references were made to public expenditure, tax questions appear to have been virtually divorced from expenditure, as is very clear from the final recommendation.³⁵

These two aspects need to be examined together, however, for the following reasons:

(a) From the standpoint of economic development, in the strict sense of

³³ *Fiscal Policy for Economic Growth in Latin America, op. cit.*, p. 70. In the above-mentioned Final Report the participants also energetically supported the need to increase revenue and public expenditure (*ibid.*, p. 419).

³⁴ "Public expenditures and economic development", *Fiscal Policy for Economic Growth in Latin America, op. cit.*, pp. 135-147.

³⁵ The Final Report, after mentioning the need for augmented public expenditure, states: "It was recognized that much wasteful expenditure is undertaken in the Latin American countries. Greatly improved methods of overall investment planning, of project evaluation, of checking the performance of public sector operations, and of control over current expenditures of governments are all essential if the burdens of increased taxation are to bear the fruits to which the conference aspires". See *Fiscal Policy for Economic Growth in Latin America, op. cit.*, p. 419.

the term, it is not enough to affirm that revenue will be used for infrastructure, etc. A specific examination of the projects and expenditure to be undertaken is necessary in order to ascertain the social benefits and costs they involve and their integration in development plans;

(b) From the redistribution angle, it is not enough to know who is paying the taxes. It is also necessary to know who is benefiting from the expenditure;

(c) As regards stabilization policy, the necessity of relating income—basically tax revenue—with expenditure is only too obvious;

(d) From the political standpoint, the resistance already referred to is displayed against not only the amount but also the composition of public expenditure.

The Santiago recommendations could also be criticized for not taking due account of the differences existing between the countries, not only with regard to the socio-political order but also in questions directly related to the economy: disparate levels of development, production structure, degree of dependence on foreign trade and foreign investment, importance of resources already exploited and still to be developed, and size of the domestic market (obviously determined by population size, stage of development and income distribution). Clearly, a fiscal reform for, say, Haiti cannot be identical with one which would meet Argentina's needs; nor would the same change be required in Venezuela's tax system as in Brazil's.

These irrefutable reflections bring us just to touch upon a study by Harley Hinrichs³⁶ which deserves to be taken

³⁶ *A General Theory of Tax Structure Change during Economic Development*, Cam-

into account in view of the impact it has had on very wide circles. It could be described as a thesis based on a particular form of economic determinism. According to Hinrichs, taxes on foreign trade predominate in the early stages of economic development, since the export sectors are often those in the lead, and taxes of this kind are as a rule easier to control. Protectionist policies also tend to make use of customs tariffs or similar charges. As industries producing goods and services for the national economy develop, however, internal indirect taxes (on sales and specific consumption items) will grow. It is not until the last stages of economic development that direct taxes will predominate.³⁷ Consideration of several examples of empirical evidence fails to detract from the validity of this thesis, but neither does such evidence invalidate the opinions expressed regarding the pre-eminence of socio-political structures or power factors. Indeed, these changes in the economic structure could no doubt be linked with parallel changes in the power structure. Thus, Japan's economic development as from the restoration of the Meiji was characterized in the early period by a heavy tax on land, which served as an auxiliary instrument for the transformation of the whole system by contributing to the elimination of the feudal system and facilitating the transfer of capital to the manufacturing sector, whose development was initiated by the State itself. In the agricultural sector, production expanded, owing at least partly to the income-effect of increased

taxation. The land tax had to be paid in cash: a fact which necessarily brought the rural population into contact with the monetary economy. In addition, the heavy taxation demanded a greater effort on the part of farmers to maintain their standard of living.³⁸

Subsequently, with the appointment of Prince Matsukata as Prime Minister, taxes on consumption were substantially increased. In consequence of the development outlined the growth of agricultural and manufacturing production was vigorously promoted by the State, which not only established the infrastructure (railways, postal and telegraph systems and a much strengthened merchant fleet) but directly initiated practically all manufacturing production through State enterprises (most of which were subsequently transferred to the private sector). In the 25 years up to 1910, per capita income doubled while consumption figures were kept constant,³⁹ so that the level of living of most of the population remained below the acceptable standards in health, housing and other fields.⁴⁰ Thus, while the predominance of taxes on consumption

³⁸ It is worth recalling that the feudal lords—either directly or indirectly—invested the bonds they received in lieu of their previous right to levy taxation in industrial enterprises and were thus converted to the new industrialist creed.

³⁹ This was largely due to the heavy taxes on consumption and land (small landowners played a large part in the rural sector).

⁴⁰ Cf. Motokazu Kimura, "Fiscal policy and industrialization in Japan 1968-1995", in *The Annals of the Hitotsubashi Academy*, 1956; and William W. Lockwood, "The State and economic enterprise in modern Japan, 1868-1938", in *Economic Growth: Brazil, India, Japan* (ed. S. Kuznets, W. E. Moore and J.J. Spengler), Durham, Duke University Press, 1955.

bridge, Mass., Harvard Law School, International Tax Program, 1966.

³⁷ See also Richard A. Musgrave, *Fiscal System*, Yale University Press, 1969, particularly chapters 5-7.

which drastically affected the great majority of the population may obviously be explained in terms of a kind of evolution that is typical of tax systems, it is more important to relate it with the interests of the military-industrial complex than governing Japan.

The many studies made to determine the tax effort in various countries are linked with Hinrichs' approach inasmuch as their aim too is to identify economic factors influencing tax pressure. Thus it has been found that the level of per capita income, the opening-up of the economy, the importance of the mining sector and the degree of urbanization are factors —to mention only a few— that account for the 'tax effort'. The insistence on the need to consider other factors related to the power structure

implies no intention whatever of belittling the importance of such studies, for the following reasons:

(a) Emphasizing the factors related to the power structure does not mean that economic factors have exerted no influence;

(b) As already noted, the latter factors may be related to the power structure;

(c) Lastly, the gap between the effort actually made and that resulting from estimates (on the basis of a regression which incorporates the above-mentioned factors, i.e., per capita income, degree of openness of the economy, etc.) may testify to the intervention of other factors —of a political order, for example— which account for its existence.⁴¹

5.

A new attempt to promote tax reforms: the Mexico Conference

Gerson Da Silva, a Brazilian tax expert (who unhappily has since died), endeavoured with singular brilliance, dedication and effort to prepare a general scheme or model that could be used for all the Latin American countries, since it was stressed at the Mexico Conference in 1972 that a comprehensive analysis

would be undertaken which would make it possible to determine how far the model was susceptible of conversion into a proposition that could serve as a term of reference both for purposes of diagnosis *and in order to offer guidelines for the reform of tax structures in Latin America*.⁴²

⁴¹ Assuming that a country has a tax pressure of 15 per cent of the gross domestic product and that on the basis of the estimated regression for a group of countries this pressure (the tax effort) 'should' be 20 per cent of GDP, there is evidence here of the presence of other factors not considered in the regression.

Cf. R. J. Chelliah, "Trends in taxation in developing countries", IMF, *Staff Papers*, July

1971; R.W. Bahl, "A representative tax system approach to measuring tax effort in developing countries", IMF *Staff Papers*, March 1972; R. J. Chelliah, H. J. Baas and M. R. Kelly, "Tax ratios and tax effort in developing countries 1969-1971" IMF, *Staff Papers*, March 1975.

⁴² The italics are the present writer's. See OAS/IDB Joint Tax Program, "Consideraciones

The basic orientation of the studies presented by OAS had a notable virtue which should be highlighted: they expressly considered taxation as an instrument for promoting development. Thus, each type or group of taxes had a basic purpose.

In brief, the following were the main points of the model:

(a) It would be necessary to promote exports of Latin American manufactures. To this end, it was recommended that the rate of exchange be established at the level of the average productivity of the manufacturing sector, and that a progressive tax on exports of primary commodities be established, applicable to each product in respect of the difference between the sales price (equivalent to the current world price) and a basic price, the latter to be calculated, however, at the exchange rate in force prior to this modification;

(b) The protective function of customs duties should be separated from that of selectively restricting consumption, which should be assigned to an internal tax, leaving the function of protection to customs tariffs;

(c) A standard effective rate should be fixed for the customs duty on all products, with the exception of special customs treatment for incipient industries;

(d) The level and structure of consumption would be to some extent determined by income taxes and a general tax on sales of goods and ser-

vices, while the structure of consumption, in its turn, would be influenced by selective taxes on consumption;

(e) The purpose of the tax on land would be to push up its productivity;

(f) A number of tax measures were suggested as determinants of the optimum combination of the labour and capital factors, for example, the elimination of taxes on manpower and the use of the value added tax as a means of financing social security benefits;

(g) In order to maximize domestic saving on the part of enterprises, the model should have the following features;

(i) Dividends should be included in the taxable component of personal or family income subject to the global complementary tax, which would be strongly progressive;

(ii) Undistributed profits of enterprises should be exempt from taxation of any kind, irrespective of the type of enterprise (including partnerships and even one-man enterprises);

(h) The structure of investment would be determined by means of a special mechanism. This would consist in the establishment of an additional tax on the profits of enterprises, from which they could obtain exemption by depositing an equal sum to be used for investment in the enterprises for such purposes and on such terms as might be established by the authorities;⁴³

(i) With respect to tax policy as a determinant of income distribution, the conclusion was reached that this was unlikely to improve significantly, either through the use of progressive taxation or through the expansion of public expenditure. Of course, this does not mean that the governments of the Latin

preliminares de carácter conceptual y metodológico", *Reforma tributaria para América Latina*. IV. *La política tributaria como instrumento del desarrollo*. Documentos y conclusiones de la III Conferencia Interamericana sobre Tributación (Mexico, D.F., September 1972), OAS, Washington, D.C., 1973. Initial statement by the OAS Secretariat, p. 22, paragraph 45.

⁴³See the various studies prepared by the OAS Secretariat.

American countries should not make use of these fiscal instruments, but only that too many hopes should not be pinned on the success of such policies. Accordingly, the conclusion drawn in the study is that fiscal instruments should be used to generate substantial additional funds which can be earmarked for the creation of employment for the marginal population.⁴⁴

In line with the general approach described above, a praiseworthy attempt was made to focus attention on certain key variables — exports, investment, consumption, etc. — which can influence economic development, and therefore to analyse taxes as instruments for influencing those variables. Thus the approach based on an analysis by type of tax was superseded.

Another step forward was the explicit treatment of foreign trade. In the context of this group of taxes there was also a consensus on the separation of the protectionist function from that of restricting consumption.

It likewise seems desirable to provide export incentives, and modification of the exchange rate could be a means of doing so. Clearly, however, this does not solve all the difficulties arising if the aim is to establish an effective policy for the promotion of industrial exports. In countries with serious inflation it is not enough to establish a favourable exchange rate at a given moment; it is important to know what form the subsequent adjustment will take. Stress has often been laid on the desirability of gradual adjustments as a means of maintaining the initial favourable situation. Obviously, too, immediate devaluation,

which is of course bound to result from a more favourable rate of exchange for exports, could have a considerable impact on the internal economy, since it would necessarily force up domestic prices. These implications were not considered.

The elimination or reduction of taxes on manpower would seem advantageous, mainly in order to lessen the regressive elements in tax systems.

Lastly, an export tax such as that described would basically constitute a useful instrument for absorbing exceptional profits resulting from world price fluctuations.

There are, however, several questionable aspects:

(1) Public expenditure policy was almost entirely ignored, with one important exception which will be referred to later. To our objection it might be replied that in view of the specific aims of the Program, consideration of public expenditure would have exceeded its terms of reference. Although it is difficult to determine whether the restrictions were actually so rigid, in any case the point is that some group should have concerned itself with this subject and should ultimately have prepared a synthesis in order to assess — not only as a conceptual model but also for empirical research purposes or as proposals for action — the effects of fiscal policy as a whole.

From a different standpoint, emphasis could be placed on the need to consider all instruments of economic policy in order to judge the results obtained, but in this respect it must be taken into account that many of the effects of taxes and expenditure are by now hard to determine and the study would become even more complex if such an ambitious goal were aimed at.

⁴⁴ *Reforma tributaria para América Latina. IV. La política tributaria como instrumento del desarrollo, op. cit., p. 354.*

Of course, the ideal thing would be to have a complete picture of the effects of economic policy as a whole; but for the time being it would surely be a step forward to work out a reasonable result for fiscal action, and this aspect could then be incorporated in a more global and all-embracing scheme. Hence the assertion that an integrated fiscal study may be the first step towards a more comprehensive and quantified exposition of all the effects of economic policy. Indeed, what sense can there be in knowing, for example, that the tax system is progressive, i.e., that most of the taxes are paid by the rich, unless it is also determined whether perhaps it is the rich themselves who obtain the benefits deriving from the expenditure;

(2) The instruments are assumed to be ateleological, which implies reference to a system of taxes but not of tax rates, with complete disregard of the political aspects of the problem (the power structure) as well as of other questions which relate to the level of taxation, since one and the same system cannot be applied for a tax pressure of 8 per cent and for another of 30 per cent;⁴⁵

(3) The optimism which attributes remarkable efficacy to the tax instrument is sometimes unwarranted. Thus, although there may be agreement on the need to reduce the social security contri-

butions (taxes on manpower designed to make the system more progressive), the effect on the combination of factors is not thought to be necessarily important in every case.⁴⁶ That is to say, other technological options do not always exist, besides which the available techniques were generally devised in countries where capital is the scarce factor.

This same confidence is displayed with respect to the effect of the system of incentives that is advocated. The mechanism recommended by OAS is probably more effective than those commonly used, such as accelerated depreciation, but the fiscal cost will also be greater, a fact of which no mention is made at all;

(4) In contrast, the opinion on income distribution alluded to above—to the effect that it is, of course, reasonable not to expect too much from any possible redistributive action in Latin America's present situation—seems unduly negative. Moreover, no clear indication is given of the difference between what actually exists or has existed and what could be achieved under a government which really wishes to improve the distribution of income. Lastly, the final observation regarding the advantage of creating employment for the marginal

⁴⁵ See, for example Richard A. Musgrave, *Propuestas de una reforma fiscal para Colombia* (ed. Malcolm Gillis, Spanish version by Miguel Urrutia), Bogotá, Banco de la República, 1974, p. 45, where it is explained that the content of the reform will vary considerably according to the goal pursued (in respect of income). It would be a mistake, however, to assume that the target for fiscal revenue can be established independently of the feasibility and content of the tax reform. The interdependence is reciprocal . . .

⁴⁶ Cf. David Felix's interesting comments on what he calls the 'relative price approach'. This point of view, he says, has some valid features, in particular its recognition that an effective technological policy should not concentrate merely on an increasing flow of information but should be linked with economic policies that will eliminate the elements of bias in decision-making which distort the selection of technology. The basic weakness of the relative price approach is that it greatly oversimplifies the technological option matrix. See *Development in Latin America: A general analysis and recommendations for technological policy*, CEPAL, Santiago, p. 18.

population –desirable though this is— puts redistribution through fiscal policy in the lowest possible terms;

(5) The complete exemption of undistributed profits –which is one of the suggested ways of promoting saving— could lead to a situation where the tax on income from capital would cease to exist entirely, considering that generally speaking it is easy to convert the payment of dividends into the distribution

of shares which would then be sold without payment of any taxes, since the model includes no capital gains tax either.

To sum up, therefore, although the general approach is an interesting one and a number of very important aspects have been highlighted, the model is not sufficiently complete, nor is it applicable to all the countries, and it fails to consider all the objectives that fiscal policy can fulfil.

6.

The experience of some developed countries in tax policy for growth

Thus far, some tentative comments have been made on general reforms for Latin America and the tax structure has been evaluated from an angle favouring a progressive system, for which purpose, as a first approximation, global relationships such as the ratio of direct taxes to total tax revenue have been used.

Since it is not only the redistribution of income that is of interest, but also the use of fiscal instruments for development, it is worth while to review the experience gained in some developed countries in the post-war period up to 1963. To this end, the most important statements made at a special conference held at the end of 1963 in the Brookings Institution (Washington) have been summarized.⁴⁷ Despite the passage of time, this report is still considered a basic study,⁴⁸ and the decision to

comment on it has not been idly taken.

Although a more thorough analysis will be made later, it is useful to state beforehand the following conclusions that emerged from the papers presented and from the discussion among the participants:⁴⁹

(a) One of the points emphasized was the difficulty of relating differences in the growth rates of the various countries to specific tax measures;

(b) Few would deny, however, that tax policy has had some influence on growth. But even in those countries where the influence of action in the tax area was greatest –Japan, Germany and

Retrospect and Prospect”, *Public Expenditures and Taxation*, New York, 1972, p. 25; and some general considerations by Stanley S. Surrey and Emil M. Sunley, Jr. on fiscal incentives as instruments for the attainment of government objectives, *Cahiers de Droit Fiscal International*, vol. LXI, Title 1, p. 30.

⁴⁹ The following countries were included in the study: Japan, the Federal Republic of Germany, Italy, the Netherlands, France, Sweden and the United Kingdom.

⁴⁷ See National Bureau of Economic Research, *Foreign Tax Policies and Economic Growth*, New York, 1966.

⁴⁸ See, in this connexion, National Bureau of Economic Research, “Economic Research

Italy— there were other factors which contributed to a vigorous demand for investment goods with a view to exploiting the expanding markets, while an abundant reserve of unemployed or immigrant workers was also available. Export markets played a key role in the Netherlands, France and Germany; and Japan was particularly favoured by a low capital-output ratio;

(c) Special attention was paid to growth resulting from greater capital formation. It was stressed in this respect that in the promotion of saving a major factor was public saving, whether for financing the government's own investment—as in the Netherlands and Sweden— or for granting loans to the private sector;

(d) It was concluded that the measures to encourage personal saving were costly and not very effective;

(e) According to a majority of the participants, investment incentives had played an important part in determining both the use and the level of investment. In particular, they thought that results justified the 'carrot and stick' policy;

(f) It was felt that too little is known about the effects of tax measures on savings and investment decisions and, consequently, more quantitative studies were needed.⁵⁰

The following views of individual participants are worth noting:

The representative of Japan underlined the fact that despite the low level of government revenue, the public sector's net saving and investment were substantial, because of the low levels of social security and defence expenditure. He further stressed the importance of

⁵⁰ See E. Gordon Keith, "Introduction and summary", *Foreign Tax Policies and Economic Growth*, *op. cit.*, pp. 35-37.

moderating the progressiveness of the tax system; a better solution, he concluded, might have been to increase government saving by raising taxes rather than to promote saving by means of tax incentives.⁵¹

An expert commenting on the German tax system noted that as from 1951—i.e., when the general state of the economy had been normalized— special investment incentives were granted only in favour of basic industries, housing construction and ship-building, and export industries. The favourable treatment accorded to the retention of profits was modified as from 1953, when it was established that distributed corporate profits were to be subject to a lower rate than retained profits.⁵² It should be noted that another German participant severely criticized the adverse effects of the measures adopted on the distribution of income and net wealth.⁵³

The provisions in force in Sweden up to 1951 as regards depreciation of fixed assets were based on a system granting free depreciation of their machinery and equipment to corporations and other associations taxed at proportional rates. Some restrictions were introduced from 1951 onwards, and in 1955 a new system was established which laid down less advantageous procedures for net reinvestment (cost of new capital goods less sales value of those replaced) with an initial depreciation of 30 per cent.⁵⁴

⁵¹ See Ryutaro Komiya, "Japan", *ibid.*, pp. 39-90.

⁵² See Karl Häuser, "West Germany", *ibid.*, pp. 97-152.

⁵³ Comment by Fritz Neumark, *ibid.*, pp. 152-164.

⁵⁴ See Leif Mutén and Karl Faxén, "Sweden", *ibid.*, pp. 337-389. No comments are made here on the investment reserve system since its purpose is basically countercyclical rather than growth-promoting.

The absence of taxes on capital gains and the complete freedom to determine the salary which a corporation paid its executive director, if he were also a shareholder, influenced the large-scale establishment of such corporations, which were considered to be elements promoting growth.⁵⁵ Furthermore, the provisions concerning depreciation—though less liberal than before—and the considerable freedom in respect of the valuation of inventories were also factors that encouraged growth (because of the greater stimulus given to expanding enterprises). The last feature of the Swedish tax system mentioned was the introduction of a sales tax that was not considered to favour growth since it was imposed not only on consumer goods but also on investment goods.

In the case of Italy, stress was laid on the burden of indirect taxes (which exceeded direct taxes, with social security contributions included in the latter group); social security contributions, for their part, increased by 1 000 per cent in constant terms in the 15 years following 1947. The heaviness of indirect taxation, combined with considerable tax evasion in the middle and upper income categories which the tax authorities were incompetent to prevent, meant that the overall distribution of the tax burden was predominantly proportional or regressive.⁵⁶

For the present study, concerned as it is with the developing countries, special interest attaches to the series of tax incentives granted for the development of southern Italy.⁵⁷ Enterprises investing in the South were exempted

for a period of 10 years from the movable wealth tax (a form of schedular tax on income) on the resulting profits. The enterprises were subject to other forms of income tax (for example, corporate tax). Under the laws in force, the exemptions covered only industrial enterprises with fixed investment such as plant, machinery and other equipment technically organized for production. Also exempted from the movable wealth tax were all enterprises located anywhere in Italy which invested their profits in the South. The exemption could not, however, exceed 50 per cent of the profits or of the investments placed.

Lastly, there were exemptions in the field of indirect taxation. In the early years of the enforcement of this law no large-scale investment appears to have been made as a result of the promotion laws, but this situation gradually changed at the beginning of the 1960s, which means that the effects of the incentives need time to mature. This is explained by a number of external economies which existed in the North, and which developed only little by little in the South (for example, manpower trained for industrialization).

By and large it is important to bear in mind that in general terms the system contained several elements which made it inefficient in promoting economic development: the high cost of collecting taxes, ways of imposing indirect taxes which distorted the structure of production,⁵⁸ a direct tax system which penal-

⁵⁷ The Cassa per il Mezzogiorno originally allocated its funds to public works. See "Italy", *ibid.*, p. 196.

⁵⁸ Comment by Siro Lombardino, *ibid.*, pp. 203-206. With respect to the effects on productivity, Lombardino presumably had in mind, in particular, the existence of a corporate

⁵⁵ "Sweden", *ibid.*

⁵⁶ Francesco Forte, "Italy", *ibid.*, pp. 173-190.

ized productivity, and in addition, procedures for determining direct taxes which created a sense of insecurity among entrepreneurs.

The tax structure of the Netherlands in the period under review was practically the diametrical opposite of Italy's. In the Netherlands the participation of direct taxes was high; in 1959 the tax on personal income alone represented about 40 per cent of total tax revenue. In addition, the system was preponderantly centralized. Among the tax measures adopted, as in several developed countries, accelerated depreciation was permitted from the time of placing an order for the purchase of a capital good, in addition to an initial deduction of one-third of its cost. However, the total amount of amortization during the useful life of the good was not changed by this provision. The Tax Revision Act of 1950 also permitted a once-only revaluation of certain capital goods in amounts varying according to the purchase date. The cumulative burden on capital gains resulting from the company tax, income tax on dividends, and the property tax was for the highest incomes close to 100 per cent. There were a number of special provisions to encourage saving (relating, for example, to non-taxable reserves and promotion of small savings). It is important to note that there were some tax reductions, and estimates were presented according to which the reductions in the capital gains tax constituted the most significant factor in increasing investment.⁵⁹ Attention was also drawn

tax on capital returns exceeding 6 per cent. As regards indirect taxation, at that time a cumulative tax existed, with the effects that are normally ascribed to taxes of this type (differences according to degree of vertical integration).

to the tax rebates on profits used for investment, which promoted company saving. These consisted in the possibility of deducting from taxable profits, during a period of five years, up to 4 per cent of the total cost of new capital goods, without any reduction of the basis (cost) of these assets for depreciation purposes. Lastly, mention was made of some measures to encourage small savings (tax freedom for premiums on savings in the case of small savers).

The French tax system was also characterized by a very high proportion of indirect taxes (70-77 per cent of total tax revenue). In a study undertaken by the Ministry of Finance, however, the conclusion was reached that indirect taxes were progressive in respect of income owing to the heavy taxes on luxury or semi-luxury goods. In France too, several provisions had been adopted to promote saving (exemptions from income tax on interest on government securities or deposits in the National Savings Fund, and exemptions from inheritance tax on certain government bonds). A number of measures were applied to encourage investment: initial deduction, exemption for capital gains realized from the sale of fixed assets when the proceeds were reinvested in the enterprise, revaluation of assets (up to 1959 revaluation profits were exempt from profits taxes, but a tax of 3 per cent was imposed on the reserve), and the carrying-forward of losses for income tax purposes. Stress was laid on the stimulus given to investment by the deduction of most investment goods which was authorized for purposes of payment of the value added tax (consumer system).⁶⁰

⁵⁹ See Cornelius Goedhart, "The Netherlands", *ibid.*, pp. 207-266.

Stress was also laid on the system's advantages, such as the conversion of the schedular tax on income into a global tax. Similarly, the significant growth of

consumption was highlighted as a factor stimulating overall demand. This growth took place in spite of the heavy taxes on consumption.

7.

Special consideration of fiscal action bearing on redistribution

Since throughout this study special emphasis has been placed on the redistributive function of fiscal policy, a more careful examination must be made of the real possibilities of its fulfilment. For this purpose it is useful to determine the results thus far achieved in the areas of both taxes and expenditure. Fortunately, Richard Bird and Luc Henry de Wulf have reviewed and summarized the studies carried out in Latin American and other countries.⁶¹

The purpose of the study on fiscal incidence, i.e., on the distribution of the tax burden and the benefits of public expenditure, is to determine *ceteris paribus* the effects on income distribution produced by government action through budgetary instruments. To

enlarge upon this general concept, the State may be said to modify the distribution of income through the following operations:

(a) By taxing a proportion of income, it brings down the relative position of some groups;

(b) Through transfer payments it influences the situation of the beneficiaries;

(c) It provides services which also benefit specific groups; and

(d) Lastly, it supplies public goods which, in principle, benefit the community as a whole.

The analysis of the incidence of taxes is the very essence of the study of their economic and social effects. Its purpose, expressed in the simplest terms, is to determine who in the last instance bears the tax burden. The incidence hypotheses are a basis for estimating the distribution of the tax burden borne by each of the socio-economic classes broken down by personal-income brackets. For this assignment of taxation certain indicators are required which quantitatively relate the incidence assumptions to the group of persons ultimately bearing the burden of each tax. If, for example, the conclusion is reached that smokers pay the tax on cigarettes, information will be needed on

⁶⁰ See Pierre Tabatoni, "France", *ibid.*, pp. 275-335.

⁶¹ See Richard M. Bird and Luc Henry de Wulf, "Taxation and income distribution in Latin America: A critical review of empirical studies", *IMF Staff Papers*, vol. XX, N° 3, November 1973; and Luc Henry de Wulf, "Fiscal incidence studies in developing countries: Survey and critique", *Staff Papers*, vol. XXII, N° 1. According to the first of these, 20 studies on the distribution of the tax burden in Latin America were found to exist. Excluding the three studies carried out or directed by the writer of the present article, hardly any of the rest were prepared by Latin Americans.

the distribution of the consumption of cigarettes in each population group. In other words, what is important here is the impact of a tax on the real disposable income of persons or households; and this impact depends on the changes in the relative prices of products and factors. Thus, when a product is taxed, it is assumed that the price will increase, thereby affecting the consumer, in a first approximation. Once the incidence of a tax is determined, other effects may supervene. Consumers of the taxed product may change their consumption patterns, and the producer enterprises, for their part, may modify the allocation of resources (capital and labour), possibly reducing the quantities used in the production of the taxable good.⁶²

Incidence theory represents one of the most difficult areas of public finance. A considerable number of theoretical studies exists, as well as an increasing amount of empirical research, the latter, however, referring only to developed countries.⁶³ These are the two components forming the basis for premises on which to build hypotheses applicable to each individual tax.

Moreover, there are many studies on the distribution of the tax burden relating both to developed and to developing countries.⁶⁴ An additional basis is thus available, since a procedure has

⁶² See Joseph A. Pechman, Benjamin A. Okner, *Who Bears the Tax Burden*, Washington, D.C., The Brookings Institution, 1974.

⁶³ Cf. P. M. Mieszkowski, "Tax incidence theory: The effects of taxes on the distribution of income", *Journal of Economic Literature*, vol. 7, December 1969. It must be borne in mind that even empirical studies do not necessarily arrive at the same findings. For example, there are some dealing with the tax on income of corporations which have reached opposite results as regards transfer possibilities.

been worked out which is considered generally acceptable, at any rate for most taxes.

To give an idea of the difficulties encountered, reference may be made to the tax on the income of corporations. The incidence assumption depends on the structure of the market. The transfer of the tax does not occur under perfectly competitive and monopolistic conditions; under an oligopolical system, on the other hand, the final incidence depends on the hypotheses concerning the reactions of oligopolists to changes in prices and quantities.

In the developed countries, corporations are not taxed in the same way as other taxpayers. In this connexion, several studies have attempted to verify that the corporate tax is transferred, and is therefore not paid by the entrepreneurs or shareholders but by the consumers.⁶⁵

Of the studies on Latin American countries reviewed in the above-mentioned article —excluding those on Jamaica and Puerto Rico— only two (Panama and Peru) indicated the existence of a progressive tax system; the others showed that the system was basically proportional, or even regressive for most income brackets.

In the area of expenditure, according to a classification presented in the study by Luc de Wulf, three ways of analysing the impact of government expenditure can be distinguished:

(i) The approach based on monetary flows, or, in other words, on deter-

⁶⁴ See "Taxation and income distribution in Latin America: A critical review of empirical studies", *op. cit.*, and "Fiscal incidence studies in developing countries: Survey and critique", *op. cit.*

⁶⁵ Cf. *Who Bears the Tax Burden*, *op. cit.*, pp. 34 *et seq.*

mining who receives the payments made by the government;

(ii) The benefit criterion, which centres on the results obtained through public expenditure; and

(iii) The effects which public expenditure is likely to have on the production structure of an economic system, as well as on the prices of products and of the factors of production.⁶⁶

The purchase of medicaments for a hospital, according to the first approach, represents a payment to the producer of those goods. According to the second criterion, it represents a benefit for the group of persons receiving attention at the hospital. The third method is obviously the most complete, and would raise the question—for example—of what types of enterprise benefit from the purchase made, and what are the repercussions on other industries such as those supplying inputs to producers of medicaments.

In the empirical research published in several countries, attention was almost exclusively centred on examination of the benefits deriving from public expenditure action (procedure (ii)). The benefit concerned will be determined by the results of the service that the State provides. More explicitly, by this method the various items of public expenditure are assigned to homogeneous population groups or classes, albeit the ideal system would be to assign them by personal income categories.

Public expenditure may be subdivided into general public expenditure, also called pure public goods, and specific expenditure.

⁶⁶ Cf. "Fiscal incidence studies in developing countries: Survey and critique", *op. cit.*, pp. 75-92.

The concept of a pure public good originated from the need to clarify the characteristics peculiar to State functions on the basis of examination of an extreme case. The point is, in essence, to distinguish public goods from those obtained on the market (private goods). The exclusion principle is applicable to the latter, in the sense that the consumer is excluded from use or enjoyment of a good unless he pays a price to obtain it. This principle does not apply in the case of pure public goods, since consumption of a service benefiting one person does not mean the exclusion of another. Recently, with the continuance of discussions and controversies about the characteristics of public goods, stress has been laid on the fact that it is not only the non-application of the exclusion principle which distinguishes these goods but also the peculiarity that they are items of joint consumption. Expenditure on national defence would be a case combining both these features; on the other hand, movement in the streets of large cities during the rush hours exemplifies a situation where the exclusion principle could not possibly be applied. Lastly, the use of a bridge where there was no traffic congestion would allow the exclusion principle to be applied through a toll, but it would nevertheless be a public good since it is an item of joint consumption.⁶⁷

One of the major difficulties from the conceptual standpoint in studies on the incidence of public expenditure concerns precisely the outlays covering these pure public goods. To give an empirical content to these observations, it may be

⁶⁷ Cf. Richard A. Musgrave and Peggy B. Musgrave, *Public Finance in Theory and in Practice*, New York, McGraw Hill, 1973, pp. 52-56.

noted that in the majority of the studies on the incidence of expenditure,⁶⁸ the distribution of the expenditure was based on income or on the number of households or persons composing each income category. Emphasis must be placed on the significance of this assignment for a complete evaluation of the effect of public expenditure, and also for assessing the total incidence of a government's fiscal action. In fact, the items referred to —i.e., public expenditure proper— may represent up to 50 per cent of total expenditure, which shows the supreme importance of the criterion to be applied.⁶⁹

Although from the conceptual standpoint expenditure not included in the category of public goods proper can be assigned easily —one might almost say, by definition—, in practice there is not always sufficient information to determine exactly who is benefiting from a specific expenditure. In theory, a highway is used by a well-defined group, but for an empirical study an indirect indicator should be used in assigning the relevant expenditure. Cases in point

might be the consumption of gasoline by income groups, or the possession of motor-cars. It must be borne in mind, however, that generally speaking highways are also used for the transport of goods. Consequently, a necessary first step is to estimate the proportion of passenger and of goods traffic, and only then will it be possible to assign the expenditure on passenger transport by income groups. Even in simpler cases problems arise: will expenditure on education be distributed on the basis of the income of the parents or of the students? The first procedure is normally recommended, since the household is the most meaningful group for the purposes of analysing income distribution.

According to Wulf's study, the findings of the research on the distribution of benefits resulting from public expenditure —with all the limitations deriving from the premises which formed the basis for the distribution of expenditure, particularly the outlays bringing general benefits— show that the lower income groups have benefited more than the higher income strata.⁷⁰

It may therefore be maintained that in several countries public expenditure has had some effect on income distribu-

⁶⁸ See "Fiscal incidence studies in developing countries: Survey and critique", *op. cit.*

⁶⁹ Cf. George E. Lent, "La política tributaria en cuanto determinante de la combinación óptima de los factores capital y trabajo", *La política tributaria como instrumento del desarrollo*, *op. cit.* In 1964, on the basis of a study by the World Bank with data for 46 countries, the author prepared the following estimates:

- (a) General administration, approximately 15 per cent;
- (b) Defence, 15-20 per cent;
- (c) Economic services, 25-30 per cent;
- (d) Social services, 25-30 per cent; and
- (e) Non-assignable, 5-20 per cent.

Here, in principle, items (a) and (b) would belong to the public goods category, and group (c) should be similarly assigned for want of an alternative criterion.

⁷⁰ Nothing has been said here of the studies on total budget incidence. The problem arising in these studies is that income —i.e., total tax revenue— is not equal to total expenditure, part of which may be financed in other ways (for example, by deficit financing). Although ideally these would have to be included and their effect on the distribution of income examined, in practice the budget study includes only taxation and expenditure, the latter exceeding the former. The findings of this kind of study should therefore be interpreted carefully, since the excess of expenditure over tax revenue by no means implies that the benefits exceed their cost. Of course, in research of this kind the comparative analysis for households belonging to different income strata is still valid.

tion, although the difficulty of assigning expenditure on general benefits must always be kept in mind.

Only past events have been reviewed so far, with no mention of the future. If it is considered that certain expenditure, such as that on education and health, has not been adequately extended to all the low-income groups, for example, the rural population, there is nothing to prevent its reaching them too, given the

necessary effort and, possibly higher costs. The same reflection applies to taxes; if today the system is regressive, it is not bound to remain so. The studies on the distribution of the tax burden show that even regressive systems contain some progressive taxes, such as personal income tax and certain taxes on property. Of course, these observations on expenditure and taxes are only in the nature of a first general picture.

8.

Fiscal policy and investment

Another objective meriting special attention is investment. Ideally, it should be interpreted in a broad sense, that is to say, including investment in human resources or in development institutions,⁷¹ but in practice it is given its traditional sense (in accordance with the national accounts classification). Perusal of the bases of the incentive laws existing in the Latin American countries would suggest that it is the easiest thing in the world to boost investment merely by granting tax incentives. Clearly, this over-simplifies an intrinsically complex problem which even the substantial resources allocated to its study in the developed countries have not sufficed to resolve. A number of questions must therefore be analysed even before embarking on examination of the effects of such incentives.

The first step is to determine the importance of public investment, a crite-

riterion naturally dependent on the political approach ('interventionism' or 'liberalism'), but also influenced by the stage of development reached, which may require a greater or lesser volume of the investment in infrastructure that is generally the responsibility of the government. This is also applicable to the formation of public or private saving. It should be recalled that in several developed countries particular importance was attached to public saving, which in some cases even provided funds for private investment.

Where economic development is the sole objective, it might be considered desirable to promote both public and private saving and investment. In principle, there is nothing wrong with maintaining such a position, but it would be dangerous to do so without bearing in mind that at any moment conflict may arise between public and private capital formation. If public investment were very substantial and taxes on the private sector were increased correlatively, a point might be reached where funds —or

⁷¹ Cf. Federico J. Herschel, "Determinantes del desarrollo", *Desarrollo económico*, vol. 1, N° 4, January-March 1962, p. 125.

foreign exchange— were channelled away from private investment. Similarly, if incentives were progressively stepped up, there might be a shortage of resources to finance public investment.

Although the studies on incentives carried out in both developing and developed countries deal mainly with the effects of income tax incentives, an immensely powerful stimulus is provided through import tax policy. This policy is implemented not only by means of protectionist duties designed to create a market from which foreign competition is excluded, but also by exemptions or reductions for inputs, and, particularly, for capital goods. A demand is thus created which requires investment in order to be translated into actual production. Moreover, the franchises for inputs bring down the cost of production, which constitutes an additional incentive, and the exemption of capital goods from import duties also means a reduction in costs which can be considerable if the rates applied—where no such exemption is granted—are high enough.

Of course, the strongest influence is exercised on the structure of investment, but it seems reasonable to affirm that in periods when import substitution is dynamic—i.e., while the possibilities of the model are still not exhausted—there will also be an increase—probably considerable in some cases—⁷² in total investment.

Obviously, the effects of the system of import taxes in force have not necessarily determined the best possible composition of investment or, therefore, the optimum production structure, since the

⁷² For a supporting opinion on the significance of import duties, see George E. Lent, "Tax incentives for investment in developing countries", *Staff Papers*, vol. XIV, N° 2.

production of consumer goods was for a long time exclusively favoured in Latin America.⁷³

It must be emphasized that if in general fiscal policy should further the aims of medium- and long-term integrated development, in the specific case of taxes on external trade this suggestion becomes an imperative. Only with an image of the future production structure in mind is it possible to map out a policy, i.e., the structure and rates of taxes affecting foreign trade.⁷⁴

The point that will next be discussed is the influence which taxes incident on the domestic economy, and particularly income tax, can exercise on the level and structure of investment.

In order to ascertain the effect of measures to liberate investment from income tax, a preliminary conceptual analysis should answer the following questions:⁷⁵

⁷³ See, in this connexion, *La revisión de la política arancelaria centroamericana*, SIECA/75/FIA/24/1, vol. I, 30 June 1975, p. 19, for a comment to the effect that dependence [on the performance of the world economy] is intensified by the additional circumstance of very low real rates of taxation on inputs and capital goods and high tariff levels for finished goods. In fact, the enlarged and protected market and the high proportion of exemptions encouraged installations which resulted in idle capacity, transferred external dependence to the aforesaid inputs and capital goods, and confined production, in the main, to final processing levels.

⁷⁴ Implicit in the reference to external trade is the fact that export taxes likewise can be scaled according to the stimulus it is desired to provide for various sectors.

⁷⁵ No mention is made here of another prior question, i.e., what is the role of physical investment in the economic development process? Although, generally speaking, few would deny the importance of capital formation, in some circumstances there could be another key

(1) What investment theory is accepted, or what is the one considered applicable in each case?

(2) What is the incidence assumption accepted—a particularly important point in the case of corporations?

(3) What other factors have played a part in determining investment?

(4) What is the cost of the incentives?

With respect to point (1), economists in the developed countries are not in agreement as to the investment theory affording the best explanation and the most convincing proofs. Some uphold the maximization of entrepreneurial profits, an assumption which also necessitates the existence of a production function. In principle, according to this approach, a tax incentive would influence the rate of return of an enterprise, even if the proposed investment also depends on the substitution-elasticity of the factors of production. Other economists support the accelerator theory, whereby investment is adjusted to the

factor, for example, the formation of "human capital" or the introduction or invention of technological innovations (cf. Mario Brodersohn, "Incentivos fiscales y estímulos a la inversión privada", *La política tributaria como instrumento del desarrollo*, *op. cit.*, p. 470). Several studies have shown that the social productivity of investment in human capital is higher than that of investment in physical capital. A number of others have stressed the fundamental importance of technological change, primarily in developed countries, though some have also been prepared with reference to developing countries (see, for example, Jorge M. Katz, *Production Functions, Foreign Capital and Growth in the Argentine Manufacturing Sector*, Di Tella Institute, Centre for Economic Research, Buenos Aires, 1968; and F.J. Herschel and J. Nogués, "El cambio tecnológico y la aplicación de un método para el análisis en una industria", *Revista de Economía Latinoamericana*, No 34, 1972).

rate at which production changes. This specification was later modified to include both the product (or its rate of change) and the stock of capital.⁷⁶ Lastly, consideration was also given to available flows of funds (retained earnings and depreciation reserves) as determining factors of investment.

A tax incentive involving a reduction of income tax influences, in principle, the entrepreneur's profits and the funds he has at his disposal for investment. Accordingly, it would seem *prima facie* that the incentive may have an effect on investment if the first and last of the schemes described are accepted or verified. This would not happen if application of the acceleration principle is assumed, since income tax does not directly affect the value of the product or its rate of change.

As regards the incidence hypothesis, it was long thought that income tax, applicable as it is to net returns, was not

⁷⁶Cf. Lawrence R. Klein and Paul Taubman, "Estimating effects within a complete econometric model", *Tax Incentives and Capital Spending* (ed. Gary Fromm), Washington, D.C., The Brookings Institution, 1971, pp. 197-207; the theory of product level, not product change, is set forth by W. Baumol in *Business Behaviour, Value and Growth*. Mention should also be made of the flexible accelerator theory, according to which the adjustment of investment to the stock of capital required for a specific level of production is not instantaneous but gradual, the issue being also affected by the stock of capital at the beginning of the period. (Cf. Michael K. Evans, *Macroeconomic Activity—Theory, Forecasting and Control—An Econometric Approach*, New York, Harper and Row, 1969, pp. 84 *et seq.*) In somewhat more complex investment functions, the degree of utilization of capacity is included among the independent variables. See also Federico J. Herschel, *Introducción a la predicción económica*, CEPAL, November 1974, pp. 109-114.

transferable, for as it was less than 100 per cent it did not alter the point of maximum return. In practice, several empirical tests have been carried out, and the impression now exists that the tax can be transferred. In the event of adoption of the hypothesis postulating total transfer of the tax in combination with the theory of maximization of profits or the theory assigning importance to the available supply of funds, the incentives would cease to have any effect because the consumer would benefit and not the entrepreneur. (Nor is it impossible for an asymmetrical type of behaviour to exist whereby the entrepreneur transfers the price increase due to a higher tax, but would not reduce the price if the tax were lowered—a case of downward inelasticity.) The answer to the third question is fairly obvious. Other factors may be more important, a recession, for example, or social or political insecurity; the incentives would be inoperative even if the hypothetical profit were to increase.⁷⁷

Restrictions of fundamental importance are the balance-of-payments position and the availability of credit, both of which can act as a brake on investment, even though incentives may offer a higher potential return.

As a first approximation, the cost of the incentives is constituted by the loss to the Treasury, i.e., the tax revenue that is forgone, but the question then arising is what the government will do when its income declines. It may increase other taxes, in which case their implications

too would have to be considered. It may feasibly reduce its spending; if, for example, it were to cut expenditure on public works, increases in private investment would be effected at the expense of public investment. Lastly, account must be taken of the deterioration in the progressiveness of the system, always provided that the assumption of non-transfer were valid.

Conceptually, these reservations would also be applicable to the effect deriving from import duties; however, the impact of these taxes and the evidence found in all the Latin American countries show that, whatever investment theory is applicable, they have influenced the establishment of many industries and, therefore, the creation of the necessary investment. Again conceptually, the reservations concerning the fiscal cost—which in this case would be represented on the one hand by exemptions and reductions for inputs and capital goods, and on the other by such high levels of protection as to prevent the taxed products from being imported—are likewise fully applicable.

Now that the indispensable basic concepts have been clarified, it is of interest to comment, albeit briefly, on the empirical analyses of the relationship between investment and incentives. A first point to consider would be the lessons to be learnt from some comparative studies, taking into account, for instance, the experience of the developed countries (see section 6). The most important of these lessons would be the following:

(1) If in certain developed countries the social cost of some of the measures adopted has been stressed, it is obvious that the cost must be greater in the Latin American countries, where the distribution of income and wealth is more

⁷⁷ See Mario S. Brodersohn and Federico J. Herschel, *Estímulo a la inversión industrial mediante incentivos tributarios en la Argentina*, a paper presented at the Conference on Public Finance held at Córdoba, Argentina, in July 1968.

unequal and, moreover, critical poverty exists, characterized by the impossibility of satisfying a human being's minimum needs;

(2) The role of the public sector in the establishment and expansion of infrastructure tends at least to be the same in the countries of Latin America as in the developed countries;

(3) It may be assumed that, generally speaking, entrepreneurs in the Latin American countries are less likely to make exact or highly probable calculations of potential returns than entrepreneurs in developed countries. The intention here is to refer not to the problem of a possible shortage of genuine entrepreneurs prepared to take on risks and co-ordinate the factors of production, but to the more obvious fact that social and political instability and frequent changes in the orientation of governments' economic policy make it difficult to undertake a strictly accurate cost-benefit analysis;

(4) The interdependence of high rates and the effect of incentives must be underlined. In this respect, it should be pointed out that the rates of taxation established by law in the Latin American countries tend to be lower than those in force in the developed countries in the period under review. Noteworthy, too, is the fact that the real rates in the countries of the region may be estimated to be even lower, because of the scale of tax evasion.

Fortunately, a number of empirical studies are available on the Latin American countries; according to these, the effect of fiscal incentives on investment has been somewhat limited.⁷⁸

⁷⁸ Cf. Mario Brodersohn, *La política tributaria como instrumento del desarrollo*, *op. cit.*, p. 469, where it is maintained that the small

As was to be expected at the present stage in the development of economic science, attempts have also been made to incorporate the tax variables in functions or models. Outstanding among the studies carried out in developed countries is one compiled by the Brookings Institution for the purpose of measuring the influence exercised on investment by the incentives in force in the United States (accelerated depreciation, tax credit).⁷⁹ In spite of the quality of the research, varying results were obtained.⁸⁰

In some attempts to measure the effects of taxation on investment in Latin American countries, no evidence

part played by fiscal incentives in the investment decisions of enterprises is due to a group of factors which, although dependent on the particular characteristics of each country, acquire importance in most of the Latin American countries. Notable among these factors are: the low tax pressure resulting from low effective rates, from the laxity of tax regulations or from inefficiency on the part of the authorities in controlling the enforcement of the regulations in question; the slow and complex administrative procedures that enterprises have to go through in applying for tax benefits; uncertainty as to the duration of the incentives for investment projects with long lead times, owing to constant unforeseen changes in government authorities; the vague and imprecise definition of the economic activities qualifying to benefit from the incentive, as reflected in the discontinuous and discretionary processes whereby the enterprises or areas of activity eligible for tax exemptions are selected. It is further contended that the efficacy of the incentives has been slight because they are scattered over a great many activities or regions, making a minimal contribution in each, owing to the fact that the governments' budget requirements prevent them from granting substantial or extensive tax exemptions. See also Federico J. Herschel, *Ensayos . . .*, *op. cit.*, pp. 498-501, 542-548.

⁷⁹ Gary Fromm (ed.), *Tax Incentives and Capital Spending*, *op. cit.*

⁸⁰ *Ibid.*, Introduction by G. Fromm, p. 1.

was found of their having influenced capital formation.⁸¹

There is one effect of fiscal incentives which has not been discussed, i.e., the effect on the structure of investment produced either by levying higher taxes

on one sector of the economy than on another,⁸² or by taxing a specific kind of investment.⁸³ The conclusion generally reached is that this impact is usually considerably greater than the influence exerted on total investment.

9.

Final reflections: proposals for a fiscal reform and its political viability

Wide-ranging as have been the questions discussed, not all the important points have been dealt with. A case in point is the multiple-budget system, under which stabilizing action should not affect either development policy (Musgrave uses the term 'allocation')⁸⁴ or income distribution policy. Nor has anything been said of the (automatic) flexibility and power of reaction of the tax system, which are factors that can be important in securing adequate financing for integrated development. These points are mentioned

here with the purpose of drawing attention to the complexity of the subject and the different nuances which should be considered in a more specific analysis.

Since the value judgements of the author have already been indicated, it seems needless to dwell on them further. All that may be worth while is to add that the importance assigned to redistribution or to social development is also based on available data and reports which testify to the crisis of what has been called 'elusive development'.⁸⁵

Moreover, it is important to clarify that the greater significance assigned to redistribution is not absolute: in fact, the countries need both economic and social development as long-term objectives, but in a first stage preference should be given to the redistribution of income in order at least to eliminate critical poverty.⁸⁶

⁸¹ Cf. Michael Best, "Political power and tax revenues in Central America", *Journal of Development Economics*, N° 3, 1976; Fernando E. Naranjo Villalobos, *A Macroeconometric Model of Fiscal Policy for Costa Rica*, a publication of the Universidad de Costa Rica, Degree Theses Series, N° 21, 1974; Federico J. Herschel and M. Brodersohn, *Estímulo a la inversión industrial mediante incentivos tributarios en la Argentina*, *op. cit.*

⁸² This is the aspect examined in the United States (sector comprising corporations and other enterprises). See *Public Expenditure and Taxation*, *op. cit.*, p. 27.

⁸³ See M. Brodersohn "La política tributaria en cuanto determinante del nivel y estructura de las inversiones", *La política tributaria como instrumento del desarrollo*, *op. cit.*, p. 469. See also general report in *Tax Incentives . . .*, *op. cit.*, p. 30 *et seq.*

⁸⁴ Strictly speaking, there are, of course, differences between allocation and development, but it should be borne in mind that the system was originally intended for developed countries. See Federico J. Herschel, *Ensayos . . .*, *op. cit.*, pp. 24-39.

⁸⁵ See Marshall Wolfe, *El desarrollo equivocado . . .*, *op. cit.*

⁸⁶ See Aníbal Pinto, "Styles of development in Latin America", *op. cit.*, pp. 121-130.

Priority for redistribution is justified on the grounds that otherwise an increasingly extensive production structure is created, depending upon the development model chosen, which will make it more and more difficult to achieve a redistribution of income.

As far as possible, of course, the two objectives would have to be pursued simultaneously, but contradictions may arise between 'development' and 'distribution'. Two extreme attitudes towards this eventuality have been adopted: some refuse to recognize it on the score that an improvement in income distribution broadens the market, a requirement for boosting investment; while others maintain that the rich have a greater propensity to save, which likewise is a necessary condition for investment. This seems a somewhat fruitless discussion on the whole; what does appear needful is to underline two points:

(i) The possibility of conflict certainly exists; if a given supply of resources is available for the domestic market, to earmark a specific proportion for the production of capital goods is not the same thing as to do so for wage goods;

(ii) As noted earlier, the style of development will differ greatly according to the importance attributed to the improvement of income distribution, since both supply and demand depend on it.

From a more specific standpoint, and thinking of Latin America and its problems, it is believed, for example, that there are several countries which could eliminate or substantially relieve critical poverty within a reasonable period of time, without its necessarily entailing a total transformation of the existing system, although this would, of course, have to undergo considerable changes in its structure and operation.

In face of frequent optimism with respect to the potentialities of a fiscal policy encouraging private investment, and considerable pessimism as regards the achievement of redistribution objectives—or at any rate the elimination of relative poverty within a reasonable period—an opposite position has been taken up in this study. What is asserted here is that a stronger critical sense or even a measure of scepticism is necessary with respect to incentives, and greater optimism as regards the conceptual and practical possibilities of applying a redistribution policy. For the time being, of course, socio-political factors are not being taken into consideration. In other words, the assumption is that, in principle, it is neither difficult nor impossible to build schools or maintain medical services in the poorer areas of rural sectors.

Accordingly—and still leaving political restrictions out of account—it would be a matter of stepping up expenditure on education and public health. Although some studies showed that part of this expenditure (especially the outlays for higher education) did not basically benefit the lower income groups, particularly in rural areas,⁸⁷ it is maintained that this is not bound to happen, although greater coverage of the respective services may mean a proportionally higher cost. Moreover, a relative optimism is warranted inasmuch as the advances made in these fields are essentially the result of the public expenditure effected.⁸⁸

⁸⁷ Cf. Vito Tanzi, *Taxation, Educational Expenditure, and Income Distribution* (mimeographed text), especially p. 13.

⁸⁸ Cf. *Long-term trends and projections. . .*, *op. cit.* As a note of warning, from the point of view expressed here, it is stated that "the redistributive effects of these policies (in the

Table 4
**CHANGE IN THE MAGNITUDE AND STRUCTURE OF PUBLIC EXPENDITURE.
 RELATIONSHIP BETWEEN PUBLIC EXPENDITURE CLASSIFIED BY
 USE AND THE GROSS DOMESTIC PRODUCT**

(Percentages of the gross domestic product)

| | <i>Structure</i> | | <i>Difference between (1) and (2)</i> |
|--|------------------|-------------------------------|---|
| | <i>Existing</i> | <i>Recommended (1980)</i> | |
| | <i>(1)</i> | <i>(2)</i> | <i>(3)</i> |
| <i>Total</i> | 18 | 20 | +2 |
| Administrative and other expenditure of general benefit | 6 | 5 | -1 |
| Economic | 7 | 8 | +1 |
| Social | 5 | 7 | +2 |

Even if—in accordance with the proposed scheme of reform—more importance were given to social expenditure, spending on economic development would not cease. Table 4 shows the changes envisaged in the light of an estimate of variations in expenditure, based on a structure of expenditure considered typical for countries at an intermediate stage of development in Latin America.

Correlatively with the real increase in expenditure there would have to be a rise in real tax revenue.⁸⁹ This would require a tax reform that in essence would contemplate the following measures:

fields of education and health) lost some of their importance as the demands of economic growth led to a shift in emphasis in public expenditure to investment in material production sectors, at the expense of those services” (p. 7).

(A) Changes to improve the distribution of income (i.e., to make the tax system more progressive):

(i) The personal components of income tax would be strengthened. This end would be served in the following ways:

(1) By raising the rates, up to a marginal rate of 50 per cent for the highest income;

(2) By eliminating or reducing deductions, exemptions, etc., i.e., by attempting gradually to suppress what in the United States have been termed tax expenditures, a step that would simplify the system;

⁸⁹ This initial assumption implies that originally there was no deficit considered detrimental to the economy. The budget is not assumed to be totally balanced, since the countries tolerate a certain degree of financing by domestic and external credit.

(3) By eliminating deductions or exemptions except for specific sectors, as will be indicated later on;

(ii) The corporate tax would not be eliminated so as not to facilitate tax evasion. The following action would be taken in this field:

(1) The establishment, if none already exists, of a proportional tax on the income of corporations. For other types of association a proportional tax is not justified. Therefore, if any special tax exists on business associations of other types, it should be progressively eliminated and the profits obtained included in personal income tax;

(2) The elimination of dividends on bearer shares for tax purposes by means of the following measures:

(a) The total elimination of bearer shares in the corresponding codes;

(b) Payment of the maximum marginal rate of personal income tax on the distribution of dividends in the form of bearer shares;

(iii) In order to prevent evasion of income tax by manoeuvres designed to represent regular income as capital gains, and to levy tax on an obvious manifestation of capacity to contribute, a capital gains tax would be created which would subsequently be consolidated with income tax, due account being taken of the special characteristic of capital gains—realization in one year of the gains obtained over a longer period—, by means of an adequate system (for example, averaging):

(iv) The taxes on net wealth or parts thereof would be strengthened:

(1) The valuation of the assets concerned (for example, immovables) would be reviewed and updated;

(2) A personal net wealth tax would be created, which would also

call for the elimination of bearer shares in much the same manner as above;

(3) Within the net wealth tax a higher rate would be applied to those components represented by unproductive capital such as motor-cars, aircraft and yachts for personal use, gardens and parks, swimming-pools, etc.;

(4) An attempt would be made to give more importance to the tax on inheritance and donations. Taxes substituted for inheritance taxes would therefore, be eliminated and the old system would be resumed;

(v) The rates and scope of taxes on non-essential or luxury consumer goods would be increased, a policy which would need to be supplemented by other State action for reallocating the factors of production;

(vi) Taxation on consumption (sales and other taxes) would be eliminated in the case of essential goods and services;

(vii) Gradually, as the larger revenues resulting from these changes warranted it, the tax on popular-type cigarettes and alcoholic beverages could be reduced;

(viii) Personal contributions to the social security systems would be lessened. The reduction of revenue resulting from this measure would be covered by the increase in revenue accruing from the preceding changes, and if this were not enough, by a sales tax of a neutral or progressive character as regards its effect on income distribution.

The above recommendations need no further explanation, except that the essential reason for the greater emphasis on personal taxes is that this will make the system more equitable, and, moreover, there is less chance of the tax being transferred than in the case of the corporate tax.

(ix) More vigorous action would be taken to prevent evasion, to which end the following measures would be required:

(1) The penalties would be more severe;

(2) The resources earmarked for detecting tax evasion would be increased;

(3) The payments of the different taxes made by the various economic sectors would be investigated in order to quantify evasion and, in particular, to discover the areas where it was greatest.⁹⁰

(B) Action to promote economic development would be taken through the measures listed below, with due regard to the fact that the changes introduced would be essentially dependent on the stage of development already reached and on the requirements of the development plan. The aim would be to relate fiscal action closely to the concrete objectives of the plan, as regards both global targets and more specific goals, such as changes envisaged in the structure of production and in the possible choice of production techniques (consideration would be given here not only to the necessity of participating in technological progress but also to the desirability of using labour-intensive techniques). It should be noted, in this connexion, that on the whole fiscal reforms, and particularly tax reforms, have not been really related to the needs of the development strategy adopted in each case.⁹¹

⁹⁰ With respect to the quantification of evasion, see Federico J. Herschel, *Ensayos...*, *op. cit.*, pp. 194-198 and 256-274.

⁹¹ For a noteworthy effort to relate fiscal policy with development requirements, see CEPAL, "Las tareas de la política fiscal y

(x) Extensive use would be made of import and export taxes. Their specific nature would depend on each case, but by way of example the following measures may be mentioned:

(1) Import duties would be heavier on goods corresponding to more advanced stages of processing, e.g., intermediate and capital goods;

(2) Import duties (or similar taxes) would be gradually lowered on goods which already have a considerable period of domestic production behind them, with a view to bringing their prices more into line with international levels (both the duty rates and the tempo of liberalization would depend on the stage of development already reached by each branch or sector, and on its technological complexity);

(3) Favourable treatment would be given to industrial exports, and they would be exempted from internal taxation. Special incentives would be given to those incorporating a high proportion of domestic value added and some degree of advanced technology;

(xi) The elimination or reduction of taxes on investment in some high-priority branches of industry would be established or maintained in consonance with the development plan, always provided that the said activities were not in the hands of the State itself;

tributaria a la luz de los problemas del desarrollo de América Latina", *Ensayos de política fiscal, op. cit.* Although the approach is different, since the study deals with a developed country, tax changes are likewise related to development in *Report of the Royal Commission on Taxation*, vol. 2, Ottawa, Queen's Printer, 1966.

Of course, it is frequently pointed out that fiscal reform should "adapt its structure to development aims and the objectives of the plan" (see *Long-term trends and projections...*, *op. cit.*, p. 72).

(xii) If necessary, use would also be made of indirect taxes (on consumption and sales) to influence the assignment of resources. Even in a developed country such as the Federal Republic of Germany, locally-produced coal is subsidized while imported petroleum is taxed.⁹²

In table 5, tax changes are shown in relation to the gross domestic product.

No claim is made that the foregoing scheme introduces a complete innovation in the field of fiscal reform, but it is thought to be a possible point of departure.⁹³ The figures can therefore, change according to the stage of economic development reached, the existing fiscal structure and the scale of critical poverty.⁹⁴

⁹² Cf. Horst Claus Recktenwald, *Tax Incidence and Income Distribution*, Detroit, Wayne State University Press, 1971, p. 98.

⁹³ The thorny topic of foreign capital has not been discussed. In this connexion the following are considered the essential points: (a) no privileges of any kind should be accorded to foreign capital; (b) there should be a certain minimum control over the outflow of funds so that remittances of profits abroad may not be used to avoid or reduce the payment of income tax by nationals.

As regards innovations, a number of interesting ideas exist, but in the main they have not been tried out or, in practice, have proved unsuccessful. Cases in point are the tax on expenditure, which is no longer new; the tax on the brain drain; and the tax on unutilized capacity. (Cf. N. Kaldor, *An Expenditure Tax*, London, George Allen and Unwin, 1955; Sijbren Cnossen, "Capacity taxation: The Pakistan experiment", *Staff Papers*, vol. XXI, March 1974; Jagdish N. Bhagwati, "Taxing the brain drain", *Challenge*, July-August 1976, pp. 34-38).

⁹⁴ In *Long-term trends and projections...*, *op. cit.*, p. 16, an estimate of the population with incomes below the cost of a minimum balanced diet was prepared for nine Latin American countries. For these countries in the

The approach to the changes hitherto recommended has been economic, with emphasis on social development, not taking into account the fact that "the social classes, power relations and the political nature of the State are of fundamental importance in the orientation of development strategies".⁹⁵

An attempt has been made to relate the standard calculations of the fiscal system with the class structure existing in most of the Latin American countries, as the controversial idea of neutral techniques⁹⁶ is not shared here, while the need to overcome segmentation of disciplines is recognized. This essay represents an extremely modest venture into sciences other than economics, with the basic purpose of opening a dialogue with sociologists and politologists so that they may criticize and/or study in greater depth the rough ideas submitted for comment. In any event, something more is offered than an approach divorced from reality and advising programmes of reform to governments "whose *raison d'être* is precisely the prevention of such developments, or at least limiting them to the greatest extent possible".⁹⁷ A specific attempt has been made in table 6 to answer the following question: Who

aggregate the population living in such extreme poverty was calculated at 35 per cent of the total, the individual figures ranging between 11 and 49 per cent.

⁹⁵ Jorge Graciarena, "Power and development styles", *CEPAL Review*, first half of 1976, p. 173.

⁹⁶ Cf. Marshall Wolfe, "Approaches to development: Who is approaching what?", *CEPAL Review*, N° 1, first half of 1976, p. 131.

⁹⁷ Cf. Dudley Seers, "The prevalence of pseudo-planning", in *The Crisis in Planning* (ed. Mike Faber and Dudley Seers), London, Chatto and Windus for Sussex University Press, 1972, quoted by M. Wolfe in "Approaches to development..."; *op. cit.*, p. 141.

Table 5
**TAX REVENUE: RELATION OF EACH INDIVIDUAL TAX AND THE
 TOTAL TO THE GROSS DOMESTIC PRODUCT**

(Percentages of GDP)

| | <i>Structure</i> | | <i>Difference between (1) and (2)</i> |
|--|------------------|-------------------------------|---|
| | <i>Existing</i> | <i>Recommended (1980)</i> | |
| | <i>(1)</i> | <i>(2)</i> | |
| Total tax burden/GDP | 18.00 | 20.00 | — |
| Taxes | | | |
| On exports | 1.00 | 1.00 | — |
| On imports | 6.00 | 5.00 | -1.00 |
| On income | 2.50 | 5.00 | +2.50 |
| Personal | 1.00 | 3.00 | 2.00 |
| Corporate | 1.50 | 2.00 | 0.50 |
| Social security contributions | 2.00 | 1.00 | -1.00 |
| Sales tax | 2.50 | 3.00 | +0.50 |
| Selective tax on consumption | 2.50 | 2.00 | -0.50 |
| Tax on net wealth or components thereof | 0.50 | 2.00 | +1.50 |
| Other taxes | 1.00 | 1.00 | — |

gains and who loses?⁹⁸ Four social groups or classes are identified for the purpose.⁹⁹

Table 6 shows the social classes that do or do not benefit by increases and reductions in expenditure and taxes. The following explanation of this scheme may be given: an increase in taxes is considered to mean a reduction in income and an increase in expenditure with greater benefits received.

The change in the structure of import taxes would consist in a reduction of protectionist duties on such final consumer goods as represent consumption by the lower income strata (urban and rural workers). In the entrepreneurial sector an intra-sectoral change would take place in favour of those manufacturing products with a more complex structure, which would initially be prejudicial to producers of final consumer goods (durables and particularly non-durables).¹⁰⁰

⁹⁸ Cf. J. Graciarena, "Power and development styles", *op. cit.*

⁹⁹ For interesting background data, see Michael Best, "Political power and tax revenues in Central America", *Journal of Development Economics*, N° 3, 1976, pp. 49-82; and Harley H. Hinrichs, "Tax reform constrained by fiscal harmonization within common markets: Growth without development in Guatemala", *Fiscal Policy for Industrialization and Development in Latin America* (ed. David T. Geithman), Gainesville, The University of Florida Press, 1974.

¹⁰⁰ The scheme used does not adequately represent the benefit deriving from higher protectionist taxation. This case is not considered in the table so as to preserve the balance of the scheme. To account for the figure in favour of entrepreneurs, it could be assumed to represent a reduction in taxes on the capital goods and inputs required by entrepreneurs producing goods of this same kind.

The income tax figures incorporate the changes recommended (strengthening of personal tax, heavier taxation on the agricultural sector—possibly through a tax on presumed income—the creation of a capital gains tax and a reduction of exemptions).

The reduction in personal contributions to the social security system would benefit the workers. The increase in income tax, for its part, would be based on a criterion of progressiveness, so that it would have a greater impact on the high-income groups (entrepreneurs and landowners). A similar principle would be followed in introducing changes in the structure of selective taxes, lower taxation on essential consumption and higher taxation on non-essential or luxury goods. Taxes on net wealth, for their part, would affect persons with high incomes, particularly in the land-owning sector.

On the other hand, the distribution of expenditure is perfectly clear: economic expenditure benefits the entrepreneurial sector, social expenditure the needier groups, particularly in the rural area, and expenditure for administrative purposes or of general benefit favours the population groups in proportion to their income.¹⁰¹

The last item shows the total advantages or disadvantages affecting each group owing to the combined action of taxes and expenditure. Another point observable here is that this budget, which in line with the Musgrave model would be essentially redistributive, is balanced, i.e., the benefits obtained by

¹⁰¹ The commonest procedure for distributing this kind of expenditure has been followed here, although to a certain extent it may seem surprising that expenditure of this type implies a benefit.

Table 6
CHANGES IN TAXES, EXPENDITURE, AND THEIR IMPACT ON THE
SOCIAL CLASSES AND THE GOVERNMENT
(Percentages of gross domestic product)

| | <i>Government</i> | <i>Working class</i> | <i>Entrepreneurs</i> | <i>Land-owners</i> | <i>Rural population</i> |
|---|-------------------|----------------------|----------------------|--------------------|-------------------------|
| <i>Total</i> | | +2.45 | -1.50 | -3.60 | +2.65 |
| Taxes | +2.00 | +2.15 | -2.20 | -3.20 | +1.25 |
| On exports | — | — | — | — | — |
| On imports | -1.00 | +0.25 | +0.50 | — | +0.25 |
| On income | +2.50 | — | — | — | — |
| Personal | — | — | -0.50 | -1.50 | — |
| Corporate | — | — | -0.50 | — | — |
| Social security contributions | -1.00 | +1.00 | — | — | — |
| Sales taxes | +0.50 | -0.10 | +0.20 | -0.20 | — |
| Specific taxes on consumption | -0.50 | +1.00 | -1.00 | -0.50 | +1.00 |
| Tax on net wealth or components thereof | +1.50 | — | -0.50 | -1.00 | — |
| Other taxes | — | — | — | — | — |
| Expenditure | +2.00 | +0.30 | +0.70 | -0.40 | +1.40 |
| Administrative | -1.00 | -0.20 | -0.30 | -0.40 | -0.10 |
| Economic | +1.00 | — | +1.00 | — | — |
| Social | +2.00 | +0.50 | — | — | +1.50 |

Note: For the private sector:

Under taxes:

+ = reduction in taxes

- = increase in taxes

Under expenditure:

- = reduction in expenditure (benefit)

+ = increase in expenditure

some groups have to be paid for by others.

The sectors thus benefiting are basically the rural and urban workers. Most of the cost would be paid by the landowners and, to a lesser extent, by the entrepreneurial sectors. As regards the latter, it must be borne in mind that table 6 shows the aggregate burden, but in view of the above-mentioned structural changes there may be a sub-group which will benefit. Moreover, it should be taken into account that the purchases made by the public sector (in relation to

economic and social expenditure, excluding the payment of wages) can also benefit entrepreneurial sub-groups. In short, the landowning sector is powerfully affected, and so –albeit to a lesser degree– is part of the entrepreneurial sector.

By way of considering the foregoing scheme in terms of reality, an attempt has been made to link it with the possible policies of populist movements. In spite of the marked differences between reformism and populism, the proposed system is held, in principle, to be applicable to both movements.¹⁰²

¹⁰² Torcuato S. di Tella, whose typification is used, expressly states that the dividing line is somewhat blurred; the reformist party is a workers' party which receives only minor assistance from the middle classes and intellectuals. In any case assistance or tolerance is accorded by other groups, so that the basic characteristics indicated by di Tella are believed to be applicable to reformism too. The scheme is as follows:

**CHARACTERISTICS OF POPULIST MOVEMENTS (IN DEVELOPING COUNTRIES)
BY TYPES OF GROUPS OTHER THAN THE WORKING CLASSES**

| | <i>Includes groups legitimized within their class</i> | <i>Includes groups illegitimized within their class</i> |
|--|---|--|
| | 1 | 2 |
| Includes elements of the bourgeoisie, the army or the clergy (apart from the lower strata) | This is the most moderate alternative. It can easily lose its populist character and become conservative | Intermediate alternative, marked by a strong tendency to use violent methods, but acceptance of the more basic values of the existing social order |
| | 3 | 4 |
| Includes only elements of the lower middle classes or intellectuals (apart from the working classes) | Intermediate alternative, characterized by a tendency to use legal methods, but fairly radical criticism of the basic values of the existing social order | The most radical alternative. Oriented towards a social revolution that would alter the basic pattern of property ownership |

Source: Torcuato S. di Tella, "Populismo y reformismo", in Gino Germani, Torcuato S. di Tella and Octavio Ianni, *Populismo y contradicciones de clase en Latinoamérica*.

The programmes of fiscal reforms suggested would correspond to situations which T. di Tella calls 'intermediate' i.e., lacking support from the legitimized groups of the bourgeoisie, the army or the clergy.¹⁰³

So extensive a commentary on the outline of a programme which is likely to be put into practice only in exceptional cases will probably be queried.

What must be said in reply, apart from the observations made earlier, is that most countries know how to carry out a fiscal policy without redistribution and sometimes without economic development either. Should there be any doubt on the subject, history books dealing with the times of Louis XIV or Marie Antoinette could teach some interesting lessons.

¹⁰³ See *Populismo y Reformismo, op. cit.* Under the previous system the "reforms" com-

mented on here could be carried out in cases 2 and 3, particularly the latter.

Notes on the future of the western democracies

*José Medina Echavarría**

What will be the future of democracy in Latin America? Medina Echavarría suggests an answer to this question based on an analysis of the controversy that in recent years has been waged in the European countries with respect to the prospects for their democracies. He does not think, of course, that their political processes are automatically reproduced in Latin America, but that in view of the similarity of certain conditions and problems, and the reciprocal contact maintained, some solutions are likely to be similar too.

After a rapid glance at authoritarianism and technocracy, the subject of the expansion of State intervention is introduced via an analysis of hypotheses advanced by Heilbroner and Bell. Hence Medina Echavarría penetrates to the heart of the matter—the crisis of democracy, as interpreted by conservative, liberal and marxist opinion; and he ends by applying the hypotheses in question to Latin America. In this last section, he alludes in particular to the relations between democracy and economic development, to the overload of demands and to the legitimacy of the principles of democracy, concluding with a reasonably optimistic hypothesis as to the future of democracy in the Latin American countries.

Following the article comments are included that were made to the author by colleagues from CEPAL and ILPES in the course of an internal seminar.

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I. Motives of concern in Latin America

1. *De facto situations and their interpretation*

For the moment our sole concern is to record a *de facto* situation. According to the observers of Latin American political life—whatever their motivation—it would seem, to judge from the number and importance of the countries reviewed, that what virtually predominates in the region is a form of government described as authoritarian. True, the adjective does not give a precise idea of the shades of difference exhibited. There can be such a thing as power vigorously wielded which nevertheless does not merit such an epithet when it refrains from overstepping the constitutional faculties of a representative régime. The term authoritarianism therefore refers to the exercise of that stronger authority more or less to the exclusion of popular participation in public decision-making.

The fact once noted, its interpretation must follow: whether purely functional and scientific in intention, or guided by value judgements and put forward as a justification or a repudiation. How far the first of these approaches is strictly possible is of course a dubious question, which need not be touched upon for the moment.

What is of interest is merely to observe that the current interpretations are of two types, although not always mutually exclusive. One imputes the existence of authoritarianism to the deficiencies of the institutional system at a given moment, whether they are to be found in the political constitution itself or in its operational mechanisms, in particular the political parties. For some,

however, these negative factors in the political structure have become crucial when the State determined by that structure has had to face up to the tasks of modernizing the economy. In other words, the institutional defects have obtruded themselves when the time has come to attempt import-substituting industrialization or to advance beyond it. Consequently, the initially strictly political interpretation, without forgoing its political character, comes to coincide or merge with the purely or primarily economic interpretation in which interest is focused on the production and distribution systems; or, to put it more exactly, on economic development. And in this context the thesis commonly propounded is that economically backward countries cannot make up their leeway by following the democratic countries' traditional paths, and that they are therefore bound to pass through a period of authoritarianism, whether it results from a mobilization process set afoot by a doctrinaire group or a charismatic personality, or from an increase in the decision-making capacity of the executive sector of the hereditary State. The second alternative emerges as the more acceptable when it is contended that the intervention of the representative elements maintained by the State has been incapable of settling the conflicts of interests that are always stirred up by economic development, and that in default of the indispensable adoption of decisions, policy-making has been perpetually left to drift on a rudderless course.

Clearly, as the character of the authoritarian State varies from one country to another, both interpretations, if they are to be valid, must be completed by a detailed analysis of the historical and social processes that have taken

place in each case. But sometimes the sociological explanation may try to simplify this diversity by classifying structural conditions under types, as has been done from the standpoint of the dependency theory. However, these or other details in the content of the interpretation make no difference to the blunt contrast, in general outline, between the explanations offered. For the time being this is all that matters.

2. *Moot questions*

It is worth while to note at least that in the interpretations under discussion two questions remain ambiguous or problematic. In the first place, a government described as authoritarian is generally spoken of as technocratic too. The problematic element consists in the fact that the predominance of technocratic procedure is usually linked by the theorists of advanced capitalism with an extreme degree of economic concentration, and is therefore unlikely to be found where such concentration is much less intense. Should this prove to be a fallacy, a different explanation for the existence of technocratic tendencies would have to be sought. Again, the assertion that a government is authoritarian says nothing in principle of the extent of its intervention either in the economic or in the social field; what is more, authoritarian States can be cited which emphatically affirm that their activity is of a strictly subsidiary nature. Is this the fact, or even really possible? Generally speaking, the question to be asked in this connexion is whether every authoritarian position demands more extensive interventionism or, conversely, whether every increase in interventionism entails the authoritarian form of

government described above. A question which has an important bearing on something that will soon become obvious in what follows.

II. Medium-term situation in the western countries

The *de facto* situation of a region in which, as has been said, authoritarian forms of government prevail may be the starting-point for a number of widely varying theses. In the present attempt to scan the future, the intention is not to weigh on their own merits the potential alternatives for the duration of these authoritarian régimes, but to examine their possibilities of continuity and change in relation to the vitality of the traditional political patterns of democracy in the countries outside the region which have the closest cultural contacts and connexions with those of Latin America. In a word, what is the presumable outlook for the great industrial democracies in the near future?

In the case of a prognosis of this type, two essential points should be clarified beforehand. In the first place, it does not postulate a type of determinism of which the mere enunciation would show it to be erroneous. That is, there is no question of believing *a priori* that what happens in one direction or another in the experience of the great capitalist democracies must necessarily be reproduced completely, and without modification, in the political systems of the Latin American countries, or that the reactions of the latter can take no other form than imitation or immediate reflex. All that is postulated is greater interdependence and reciprocal contact among a number of countries undergoing

similar processes, and the consequent spread of similar conditions throughout the whole group as the solution of their problems makes for stabilization. Thus nothing forced or purely mechanical is involved. The second essential is to clarify the *raison d'être* of certain propensities in futurological research. The aim of such research is to anticipate trends and formulate projections of every kind, and great importance is of course attached to those of a strictly technological character; but undoubtedly its keenest concern is for the future lot of humanity, and accordingly for the extent to which the values that are still considered essential to civilization are destined to flourish or to founder. The horizon of the human condition could be the predominance of absolute dictatorship, but it is not denied in principle that man may be capable of conserving, in differing degrees, the liberal and democratic elements to which he still aspires, whatever the picture presented by the technological scaffolding and the economic structures which it largely determines. And although no forecast can disregard the real trends of the material factors — as will next be shown — it is equally true that a task of this sort is meaningless unless its ultimate objective is to presage what may become of human life with all its aspirations and sufferings. Will it be possible for liberal democracy to survive in economic and

technical conditions very different from those hitherto prevailing? The question retains its theoretical validity as a problem, whatever pessimists or optimists may feel about it.

Nobody can think it unjustifiable that declared anxiety about the efficacious operation of democracy should exist in certain countries whose history has hitherto marked them out as models of democratic practice and doctrine. This anxiety itself indicates that it must stem from people with a manifest interest in preserving democracy; that is, from intellectuals and politicians who in this sense reveal themselves as conservative, since the flaws and impending dangers they point out, the limitations and perils they denounce, are not altogether attributable to a doctrinally unfavourable angle of vision. In the present article it was thought best to begin by methodically seeking the support of studies written in a conservative spirit, although at the appropriate stage due attention must be paid to left-wing criticisms, including those of both the traditional and the so-called "new" left, sometimes more stimulating than the former in its vagaries. What is the view taken of the "governability" of the great capitalist democracies over the medium term? An expression which is far from self-explanatory, and consequently somewhat infelicitous. For the point to be ascertained is not whether democracies lend themselves little or hardly at all to being governed — by whom, in this case? — but rather whether the countries that have long been living under a democratic régime can be more efficiently governed than at present. What is being tacitly asked is whether in such countries a stronger government can or cannot be looked for; which implies, to put it the other way round, that in them

the reins of government are slack or not held firmly enough. What are the reasons underlying this bloodlessness on the part of authority and the consequent demand that it be given a stiffening tonic? This was the line taken in a joint study by a "Trilateral Commission" — a title justified by the aim of exploring the problem on what are obviously its three most decisive fronts: the United States, Europe and Japan. The adoption of the text in question as a basis or point of departure at this stage of the present essay seems recommendable not only on account of those dimensions and the personal prestige of its authors, but also — as was said before — because their position is conservative rather than revolutionary. In their study, as in others like it, the future viability of democracy is repeatedly linked with economic development. Accordingly, before entering upon a somewhat more detailed examination of the subject, attention should be drawn to a common premise which in these pages too is definitely an underlying hypothesis: the assumption that over the medium term a convulsion of the capitalist world even comparable to the traumatic crisis of the year 1930 does not appear to be likely. Expressed in positive terms, the hypothesis supports the certainty that for the next twenty-five years at least the system will still be capable of sustained growth, as maintained in the recent report by W. Leontief.

Given such a hypothesis, however formulated, the following are the two most general forecasts which must reasonably be taken into account. It is expected, on the one hand, that during the next few years all the countries of the West will experience a steady expansion of State intervention in the economic field; and that in the political

field, for these and other reasons, the traditional democratic régime will be faced with serious challenges, not, however, different in kind from those they have already encountered in recent times. The next step is to consider, in very concise outline, the principal points at issue.

1. *Expansion of State intervention*

Setting any revolutionary position entirely aside, from relatively conservative points of view the theory of the increasing expansion of State interventionism in economic life is nowadays presented mainly through two kinds of analysis, if not incompatible, at least based on different lines of argument.

(a) *Increased planning requirements*

The first, represented by R. L. Heilbroner, asserts that if the continuity of the "business civilization" is to be maintained in the next few years, planning will be called upon to play an increasingly predominant role. For over the medium term all the capitalist economies will predictably have to cope with certain problems: (i) correction of the generalized distortions that they tend to produce; (ii) correction, likewise, of other distortions or disturbances of a localized type; and (iii) reaction to the threats that are making themselves felt in the natural environment. How these inescapable planning requirements—and the consequently stronger influence of the State on economic life—will affect the democratic system of government is a matter that Heilbroner does not discuss. The only point of interest to us at the moment is his basic contention, in response to other more conservative politicians and intellectuals, that if the capi-

talism of today is to survive the only course open to it is to step up planning. Through what political mechanisms this can be done does not seem to be of immediate concern to him; which perhaps allows one to assume that the expansion of State intervention can be effected through democratic institutions. For the moment this is all we need take into consideration; and accordingly it is unnecessary to go into what the author thinks about the more distant future of the system, unless it be to note that even in face of the possibility of its complete transformation he reaffirms, not without a touch of melancholy, the value represented by the autonomy of the individual as the supreme value of western tradition.

(b) *The State as Public Household*

This same futurological conclusion that State intervention will presumably be expanded in time to come is also reached by another economist, notoriously conservative or right-wing, via a very original and suggestive analysis. We refer to Daniel Bell, confronted in his turn with the supposed crisis of capitalism. There is nothing new about such a presumption, since for years past currency has been given to different versions of the idea that limits must be set to the autonomy of the economic system—as if that were the only social system in existence—and that it must be subordinated to non-economic values which man's moral consciousness rates more highly. Nor, in the empirical account, is there anything original in the assertion that the system in question, while capable of regulating fairly efficiently the public or private interests subject to market mechanisms, is a broken reed as regards the maintenance

of public services for the benefit of other legitimate human interests, which, however, cannot be exactly measured in terms of the mechanisms aforesaid. The intellectual appeal of Bell's reflexions on these issues consists in the undeniable plasticity of this approach. In a work written earlier than the one of most concern to us at present, when examining the contemporary operation of the "corporations" he had already shown through them the tension between what he called "economizing and sociologizing modes": a tension easily generalizable to the system as a whole. What this meant was that the purely economic concern for productivity found its compensation and its curb in the sociological concern for the effects produced on human relationships. Historically, indeed, this tension indicates that the advance of such sociologization implies as its inevitable outcome —not always consciously sought— the insertion of the economic system in a broader social system, geared to objectives different from its own (a line of thought which E. Heimann might have followed up in order to demonstrate his fundamental postulates).

But for our present point —the ever-increasing intervention of the State in economic life— greater interest attaches to a chapter in Bell's controversial book in which, taking as a basis an old and almost unknown article by J. Schumpeter, he shows the ineluctability of that expansion (besides dealing with other no less vital topics) by disclosing the real nature of the contemporary State as a fiscal system, as the articulation of a country's Public Household. This is not the place to enter into the details of the argument or to appraise its originality or validity. The family household was the sole economic object of the classic world (Aristoteles), and M. Weber had devoted

a long chapter to the household system as that corresponding to the *Oikos* economy —predominantly natural— which was widely prevalent in the past, prior, of course, to the domination of one or other form of capitalism. The Public Household —a term which up to a short time ago was still currently applied in Europe to the fiscal system— came into being with the modern State and at its service. But even its continual expansion did not overstep the bounds self-imposed by the State in relation to the liberal economic system: a system which, if it met individual needs or wishes, did so through their spontaneous satisfaction within the play of market forces. But the increasing complexity of contemporary life compelled the State not only to look after the viability of the market —maintaining capital accumulation as an essential requirement— but to cope with the various individual or group demands, fostered by cultural incentives, which in principle could not be satisfied through the market. In this sense the State as a country's Public Household considerably increases in volume, running the risk of bankruptcy if it does not properly balance its budget. The problem of the present-day State is that it cannot shelve the twofold function which has been imposed upon it in the course of history: to continue co-ordinating the economic system —keeping up the capital accumulation it needs— and to satisfy in one way or another the snowballing needs and wants of individuals and social groups that fall within its own sphere. The curious thing about these new demands is that they increasingly assume the guise of quasi-legal claims —or, if preferred, entitlements— which are so manifold and so conflicting that they can be met only by strictly political decisions. It will not be surprising to find

this point cropping up in all analyses of present-day democracy.

How much all this may be worth as a symptom of a contradiction in the economic system and on account of its repercussions on the dilemmas of development is, like the political solution proposed by our author—a restoration of liberalism—a question outside the scope of the present article. Our sole object was to discover once again, in the opinions of another economist, the predictions of the one previously cited: the foreseeability of an expansion of State interventionism in the near future in the great industrial democracies. But some reference cannot be omitted—since the topic has become an obsession in the thinking of the New Left, and given that allusion has already been made to the assumed tension between the economic and sociological approaches—to the fact that for Bell one of the most crucial dilemmas of the new State as Public Household is that posed by the relation between efficiency and equity: how it will be possible, to increase a society's productive capacity and at the same time restrict or limit certain types of consumption. The principle of equity also pertains to the liberal current of thought, touched upon likewise by Heilbroner from his personal standpoint. Let us now come to the other element in the prognosis which appears alongside the expansion of State activity; they might in principle be regarded as independent, although in practice this is not so.

2. *Breakup of democracy*

The presumption is that in the immediate future there will be a "Crisis of Democracy" (the title of the report mentioned above) in the major countries

which for the time being maintain that political régime; but the term crisis must be taken in its strictly etymological sense, as meaning a particular stage in the evolution of a system which is marked by sufficient symptoms of vacillation and disturbance to indicate a state of transition, ruling out neither the recovery and reinvigoration of the system or its final disintegration and collapse. At the same time, this crisis merely represents the prolongation into the future of difficulties already observable in the immediate past, and therefore at the present day.

(a) *Conservative interpretation*

For the purpose of analysing the crisis and the existing predictions it will be useful to resort to a classification, as defective as any other, but an adequate basis for orderly presentation of the subject-matter. Those whose concern is focused on the breakup of present and future democracy can be grouped around three kinds of attitudes and motivations, conservative, predominantly liberal or coloured by radical negativism. The report of the Trilateral Commission falls especially into the first group, in the context of a technically functional theory. This position attributes the crisis of democracy to four main factors or causes which may be summed up beforehand as follows: (i) institutional distortions; (ii) the overload of demands on the State induced by the theory and the actual development of democratic tradition; (iii) supposedly functional connexions with economic development; and lastly (iv) the shrinking of territorial spheres of influence in face of the various forms of global interdependence in the contemporary world, above all in its economic sector. The

presence of these factors can be demonstrated in each and all of the countries under consideration, although it must be stated at once that great differences exist from one country to another for structural reasons or on account of political traditions. This point should be borne in mind to obviate the need for repetition, except where it is particularly appropriate.

(i) *Institutional distortions*

The proposition respecting institutional distortions is the least novel, inasmuch as for some time now attention has been insistently called to one or other of the forms they take: to the relations between the legislative and executive powers, to the inefficient operation of the political parties, and to the uncertainties of the average citizen's electoral behaviour *vis-à-vis* the parties in question. For years past stress has been laid on the technical weakness of any type of Parliament, over against the Executive and its administrative institutions, whose greater technical and scientific knowledge and training means that they have very little difficulty in imposing their basic decisions in the shape of proposals and bills. In face of this *de facto* situation various solutions have been put forward, ranging from the establishment of technical commissions at the service of the legislators, to continually renewed projects for the representation of professional interest, either parallel to or in association with the political Parliament. As regards the parties, attention has over and over again been drawn to their lack of representativeness, their imperviousness to the conflicts of social demands, which prevents them from fulfilling the function which in modern terminology is described as 'articulation of interests' (so that there is a want of relation and

proportion between the political 'inputs' of the population and the products and results of legislative decisions). New Left criticism in its extremest forms takes the view that the parties and the Parliament are only a deferential instrument, but that nevertheless they play an important role, inasmuch as they constitute in practice the necessary nuclei for legitimization of the system. Conservative comment confines itself to describing the dwindling attraction exercised by the parties over the electorate, above all when in their tactical coalitions they can be seen to differ only from electoral motives and over trivial questions of immediate topical interest (denoted by Gallup polls), not because of decisive stands taken in confrontations on major national issues. We must repeat that the situation varies from one country to another. For instance, the Administration may dominate the Parliament to a greater or lesser degree (extreme cases, Italy and France); in this respect, however, matters may be complicated by internal divisions in the Chambers of Deputies themselves with regard to the Presidential office, as in recent years in the United States, where the 'imperial' Presidency of former times has given place to the manacled authority of more recent days. The failure of political leaders to carry conviction or kindle enthusiasm and the apathy or wavering allegiance of the electorate are primarily attributed to these circumstances, which are perhaps to be seen as temporary in some parts of the world or as deriving from what seems functionally to be the result of a 'blocked society'. Blocked, that is, by the major administrative bodies.

(ii) *The overload of demands*

Many observers of the faulty operation of present-day democracy agree in

pointing out, in different terms, how one of the main factors in the crisis is what some call the overload of demands that a democratic government takes on its shoulders: demands, that is, for State contributions and assistance. Such an imputation is not so much merely unclear as equivocal. An increase in the volume of claims or requests with which State action is faced is by no means the heritage of democratic government alone; the same thing happens under any other form of government, in so far as such demands are the result of the intensified complexity of social life –of its technological postulates– and of the similarly increasing opacity it presents as a whole. The authoritarian States are by no means exempt from the pressures of this overload.

In the countries with a tradition of liberal democracy the existence of such an overload would seem perfectly explicable and natural, since it is nothing but the historical development of the very principles by which such régimes are upheld. The aspirations they necessarily encourage have gradually swelled as the people have come to see many of their ambitions as increasingly realizable. Better care of health, for example, is fostered by the progress of medicine itself, and this highlights the injustice implied by its limitation to certain sectors. Nevertheless, in the countries in question the allegation of the overload of demands barely conceals awareness of a deep-rooted inconsistency in the values underlying their centuries of civilization: the inconsistency represented by radical individualism. The individual was envisaged as the responsible centre of all activity –not only economic activity– who in order to exercise it needed only the guarantees extended by a remote and neutral State. This is not the place to

review the long history of the various episodes which have removed the complete fulfilment of this ideal farther and farther out of reach, although it is still rightly believed that no civilization is conceivable which would really attempt to turn its back upon the only forces that are genuinely creative –those of the individual. But any digression into the cultural field, however condensed, is to be avoided here.

In the empirical analysis of the difficulties of a democratic government, in face of the excessive quantity of requests addressed to it, further emphasis needs to be laid on two aspects of the question already reviewed or well-known. In reality, given the enormous distance between the concrete individual and the abstract State, the demands made by the former upon the latter call for the interposition of regulatory and intermediary mechanisms capable of judging each claim according to its weightiness and importance. But without going farther –to the point, for example, of assessing the value of the old Durkheimian idea respecting the need for *corps intermédiaires*– the question for the moment is to remedy the shortcomings of the existing instruments of adjustment, in particular the political parties –not to mention other professional associations– in the performance of their principal task: the necessary articulation and balance of the multiplicity of interests present at any given moment in the life of a society, so as to make them viable in due course. It may be that the supposed ‘overload’ is created more often than not by the deluge of interests that makes it impossible to discharge such a function. In this sense, the obvious problem posed by excessive demand is of an institutional character, and therefore can be dealt with by means of appropriate institutional reforms.

The other aspect of this menacing overload is perhaps more serious: the fact that today many group and individual demands ('needs' and 'wants') are peremptorily presented as quasi-legal claims, which, transcending the principle of equality of opportunities predicated at the start, in reality call for actual equality of benefits, and thus trigger off that rising revolution of entitlements of which one of the above-mentioned authors has spoken. Problems created by distribution of these entitlements on a quota basis have been typical of the situation in the United States, and not in that country alone. And it is a more serious matter than in the preceding instance, because the possible solution does not lie in the revitalization of familiar institutions, but in a new constitutional delimitation of the scope of old-time liberalism. This is why the topic is of concern to current trends in restorationist thinking, which is striving to identify and define what the past can show us that is still valid today. For reluctance to accede to the promptings of this line of thought would leave only one alternative: simply to accept the interpretations of some neo-marxists who declare, in a complicated 'functionalist' theory, that it is typical of the democratic forms of advanced capitalism ('late' in their terminology), to pursue a 'preventive' policy in relation to the crisis, whereby priorities among these social demands are in effect assigned technocratically, and those that do not jeopardize the viability of the system are left to take their chance (Claus Ogge). This is a position which up to a point is in accord with the conservative thesis regarding the overload of demands on the present-day State, without, however, offering possibilities of a truly democratic way out. It will be shown that the

liberal thinkers who start from the inevitability—even the desirability—of the conflict between the various requirements stimulated by the social environment itself are bound, of course, to devote special attention to this point.

In practice, the problem of the superabundance of claims with which the democratic State has to cope represents a sociologically inescapable situation, which cannot be dealt with by silencing or arbitrarily curtailing some of them. Nor, indeed, could an authoritarian State attempt such a solution without incurring the corresponding risks.

In theoretical discussion the subject of the overload of petitions from the various social units—individuals or groups—sometimes takes paradoxical forms or directions. For in this connexion the crisis of democracy can be interpreted as an 'excess' of democracy. And in contrast with the classic postulate that its ills can only be cured by more democracy, some contemporary functional analyses see amputation as the sole remedy. Not, of course, saying so in such forthright terms, but demonstrating the existence of dysfunctional elements in the democratic organization, which give grounds for assertions as to how and in what degree this type of political system often requires, for its effective maintenance, a modicum of political apathy and indifference. Is there an exactly measurable distance between a democracy of limited effectiveness and an authoritarian government? For the issue here is not the greater or lesser volume of demand that may paralyse a government's decision-making process, but the whole essence of democracy as political participation.

It would be by no means easy to formulate and prescribe appropriate

remedies if the cyclical process allegedly observable in a specific country were to prove a reality: a process whereby every increase in 'participation' would ultimately lead to a polarization of society, which in its turn would conduce to political apathy and indifference, thus creating situations of which the upshot would be a widespread perception of the inefficiency of political action. Functionalism has its surprises.

If, then, the argument is not to lead directly to an authoritarian position, it leaves, regretfully perhaps, no other way out than the corrective consisting in a permanent line of defence of a technocratic character, capable of breaking down the alarming repetition of the aforesaid cyclical process. But the domination of technocracy, to which other tendencies of the social structure are conducive, is exactly what is considered inadmissible from the standpoint of the traditional postulate of popular political intervention on a majority basis.

(iii) *Democracy and development*

During the 1960s, sociologists in several of the Western countries diligently bent their attention upon a social phenomenon which some were bold enough to describe as new or unprecedented, although there were variations in the terminology in which they attempted to pin it down. They pointed out that in all the industrial countries of the West an egalitarian trend was gradually advancing which, while by no means fully comprehensive —embracing status, income and culture—, was already bringing the various social classes and strata so much closer together as to promote a certain homogenization in many respects. There were still glaring inequalities where income was concerned, but its relative rise in the sectors that had previously been most unfavourably affected seemed

to be easing the deepest-rooted of the customary tensions. A sort of broad intermediate stratum —by whatever name it was known— had improved its material living conditions, so that its members were able to accept as tolerable what were still very marked differences at the summit of the population pyramid. It was not merely on account of their opponents' doctrinal riposte that the sociologists in question cherished no illusions whatever as to the existence of these limitations in their interpretation; and this prevented them from flatly denying the reality of the historical legacy of antagonism. They urged, however, how promising a sign it was that the reduced dimensions of the conflict or conflicts had allowed them to be institutionalized, and that the acceptance of this institutionalization by groups which had formerly been at daggers drawn not only attenuated thorny problems but gave temporary solutions increasing durability.

But apart from and alongside this mitigation of the conflict —above all in labour matters— the relative expansion of education and the impact of the mass media (press, radio and television) had brought about a cultural homogenization that had never existed before. In Europe, despite the subsistence of the marxist parties and of trade-union forces, the workers seemed to have renounced their own differentiated culture and were increasingly adopting the 'bourgeois' way of life; in this case, moreover, no mention need be made of the United States, where such phenomena had hardly ever appeared. It is not surprising that in view of what happened during the three decades following the war, some writers should exalt that period both as the years of the renewed triumph of capitalism and as a time of

abounding vitality in the democratic régimes which harboured it; or that, conversely, many should have begun to feel some anxiety about the continuity of democratic life in face of the difficulties that loomed up in it as soon as economic expansion encountered its first stumbling-blocks. Consequently, the thesis put forward by these authors is that of parallelism between economic development and democracy. During the past boom, the fact that the whole population shared in absolute terms in a higher level of well-being smoothed the way for democracy —notwithstanding the acknowledged institutional defects—in so far as most of the people unhesitatingly put forward their new aspirations in the firm belief that these could really materialize. Conflicts of interests could be relatively successfully settled, and fuller satisfaction —restricted here and there for the moment— was only a matter of time and a steady course of political action. What would happen if the expansion which moderated the acerbity of the traditional struggles began to show signs of stagnation?

The equation of wealth with pluralism which for thirty years has been affirmed by some political scientists is reflected today in the parallelism, asserted by others with equal conviction, between economic development and democracy. Given this hypothesis, the impediments to democracy in the Western countries (including Japan) in the immediate past and predictably in the years to come would in their turn constitute a decisive factor in the constraints which for other reasons threaten to handicap economic development in the future. Naturally, the thesis is of supreme interest to the developing countries in the context of a dependent capitalism; its initial presentation, im-

PLICIT as yet, possibly had to be made, where those countries were concerned, in the doctrinal content of the admonitions to 'modernize' themselves which were addressed to them.

Although for the moment experience seems to confirm it, how far is this really an irrefutable thesis? For it not only draws attention to the difficulties of the democratic régime in respect of the co-ordination or general running of the economy, but also underlines the demoralizing effects of both inflation and recession on political consciousness —the strength of the impact varying in the different social sectors— and, what is more, not merely in cases where recession and inflation occur together, but, above all, when as occasionally happens they alternate incomprehensibly. An analysis of the correlation between economic development and democracy would entail following up a considerable number of presumed internal causal relations without whose proven consistency the correlation in question —like any other— would turn out to be a mere outward appearance or façade. In this lightning review of the main topic it would take up too much time to attempt any such thing. Let us provisionally admit that the correlation does show a temporary validity in relation to the historical juncture at which it has been observed. But in this case there are still two major questions which cannot be shirked. The first is posed by the fact that in the history of thought liberal and democratic ideas precede and are independent of conceptions respecting economic development. *Vis-à-vis* the doctrine we shall presently consider, to the effect that the legitimacy of the democratic régime is identical with the success and efficiency of the economic system, a vigorous reminder is needed that the

type of domination which characterizes the modern State and which in one way or another upholds both its liberal elements (political rights) and its democratic features ('representation' as a legal faculty) has its origin in the evolution of ideas on natural law before and after the dawn of the modern epoch. It is worth while to recall the chapter on natural law in Weber's work on juridical sociology (in no way a philosophical treatise), where it is shown that the basic postulates of legal domination have their moment of faith consisting in the acceptance of charismatic inspiration. Accordingly, no essential relation links the development and historical consolidation of the modern constitutional State and its subsequent democratic structure with the specific conceptions of the capitalist system, and consequently neither the rule of law nor the institutional crystallization of the egalitarian aspirations of democracy has been formulated or defined as a function of what we now call economic development. Guarantees of the public and private rights of the individual date farther back than concern for the growth of the economic system. And while the legal rationale of the State undeniably has its parallel in the bureaucratic rationale of every kind of enterprise, it is no less true that the development of modern bureaucracy was in principle indifferent to the extension of democracy, although in practice favouring it within certain limits. The bringing into operation of the modern rule of law and of the democratic processes (by successive extensions of the right to vote) was never directly aimed at fostering economic development. Thus they might just as well thrive in countries where economic growth was slow as languish on the verge of defunction in others where it was rapid. The history of

Europe is a clear case in point, since poverty was no bar either to the ardent desire for democracy or to the gradual improvement of the footing on which it was established. The history of the various parties, of their doctrines, and of the steady formation of political habits and traditions, has its fount of inspiration in some of the European countries. The situation is not comparable with that of the United States, where entirely different conditions early permitted the consolidation of the wealth element. To the distinct and peculiar weight and continuity of these customs and traditions have been due, as already remarked, the differences in ability to tackle with greater or lesser degrees of success the difficulties faced in recent years by the democracies, some of which have kept going with exemplary vigour during the recent years of economic recession. And whatever the relationship of linkage or of independence between the political and economic institutions—a point we shall not discuss here—there can be no doubt whatever that these deep-rooted potencies of political education will have the final say in determining not only the cultural conformation of the economic recovery still foreseeable in the next few years—with ups and downs, to be sure—but also the course to be steered by the major countries in the so-called quest for their 'identity' expected to ensue in the coming decades upon the vacillations experienced during the earliest endeavours to bring about the 'détente'. If in the immediate future the democracies manage to re-create their traditional physiognomies in this readjustment of their 'personality', they may very well show themselves capable too of reasserting their 'will' to political continuity, even in the event—problematic as

regards dates and the nature of the factors that will trigger it— of their being compelled to accept varying degrees of limitation of their economic development, without on that account entering upon a definitely stationary phase. Although some maintain that the economic structure of capitalism has less capacity for adaptation to such problems than that of socialism, it cannot be stated *a priori* as a certainty that the democratic political mechanisms of compromise, pliability and accommodation to the corresponding sacrifices will necessarily prove inferior to the rigidities which in the long run authoritarian bureaucracy brings in its train.

(iv) *Narrowness of national boundaries*

The last of the factors in the crisis of contemporary democracy which the various students of the subject are given to pointing out with unwonted unanimity is that deriving from the progressive contraction or shrinkage of national boundaries as against the breadth and interdependence of the world economy. The very definition of the State embodied its 'territorial' character; its mandatory powers and legal competence covered only a territory jealously demarcated by its frontiers. But in turn all activities carried out within that space by citizens of other countries were subject to its own regulations, which might equally well permit them, set limits to them or penalize them. And although this was true of any kind of State, those of a democratic character had to be able to count, up to a point, upon a minimum of participation of informed public opinion, both in the cases referred to and where external or international action was concerned—of course within the bounds of prudence. But the dimensions of what was mani-

festly becoming an increasingly global economy virtually shattered, along with the real efficacy of frontiers still theoretically intact, the nation-State's authentic capacity either to withdraw behind them and assert its sovereignty or, in practice, to prevent the internal repercussions of external activities, movements and pressures which it was impotent to control from its own power centre. The experience of the past few years shows that not even the most economically powerful democratic States have been able to fend off the impact of the world around them. The case of the transnational corporations would seem the most striking example at first sight, although it is in fact far from being the most important and profound. Recent economic history is all too well aware of the successive waves of pressures and counter-pressures which have surged up as the result of national economic policies, doubtless, moreover, quite outside the range of their original intentions. The economic recovery of Europe and Japan promoted by the United States created in subsequent years serious difficulties in economic relations between the parties concerned; just as later the repercussions of 'exported' inflation made themselves felt, or the financial effects of the joint policies of the oil-exporting countries and the understandably defensive action taken by the customer nations. The territorial space of the State is contracting, and the democracies perceive in this shrinkage the evidence that they lack the mechanisms to intervene 'democratically' in the new and vaster arenas in which they are bound to act. Only against this general background can the problem of the 'transnationals' be made intelligible. Far from creating, as some have maintained, a new type of interna-

tional society in which the old sovereign State tends to disappear or sink into obscurity, they confront that State, to whose supreme authority they are still subject, with a good many problems both of political and of economic control. The issues raised by the creation of a new international economic order call with varying degrees of urgency for the establishment of international 'authorities' in which the democratic governments need to participate, even if the equally democratic nature of those authorities is not defined and cannot be clearly and effectively established.

The necessity for regional policies—accompanied by the constitution of regional units, economic and political in their ends—throws into strong relief the difficulty of broadening the constricted national spheres of action and the ill-preparedness of the democratic régimes to transfer to the projected units the usual procedures of their own systems. The novelty of the situations created by economic interdependence takes political thought and action by surprise with exigent demands on the imagination that do not present themselves in the same way in face of the other factors of crisis which have been longer known and studied. In this case the tasks of reconstruction or restoration become real feats of inventiveness.

(b) *Liberal interpretation*

The ingrained propensity of the mind to classification led us to distinguish an interpretation described as liberal alongside the more functionalist and conservative approach we have just discussed. Strictly speaking, it is not so much a different interpretation as a nuance of the first, sharply apparent, it is true, in the drafting of the report

referred to above. On the one hand, a marked feature of its critical orientation is the peculiarly liberal vein, quite distinct in European tradition from the concepts of democratic and egalitarian participation: influenced by Stuart Mill, for example, with his doctrine of the essentially representative nature of the democratic régime, or by Tocqueville, with his apprehensions that some day the advance of democracy might perhaps lead to the anti-liberal assertion of a drivingly authoritarian 'majority'. On the other hand, the sociological postulates of this sector of liberal thinkers diverge—always drawn towards the lodestar of order and social harmony—to stress, in contrast, not only the inevitability of struggle and conflict but even their positive value. Consequently, every liberal-democratic conception of the political system tends to accept as its point of departure the existence of opposing interests and ideological positions which cannot be finally reconciled at the dictates of an absolute truth possessed as such, but can only come to temporary arrangements, successively amplified to meet the needs of the moment, and worked out through agreement, compromise and mutual moderation of incompatible extremes. Hence the democratic value of procedures which, by allowing this form of give-and-take, represent the institutionalization of the conflict; that is, the value of the liberal condition which consists in respecting, while it lasts, the validity of an opponent's interests and opinions. Any régime that believes itself to be in possession of the one and only truth and tolerates nothing in the way of dissension, thus precluding discussion that might lead to a relatively satisfactory agreement, is in principle unmitigatedly

authoritarian, even if it is democratically elected and appears to express the will of the majority. In face of the difficulties and dangers besetting contemporary democracies, the thinkers who still draw their inspiration from this vein of liberal tradition point out, first and foremost, what aspects of it are imperilled by excess or by defect. R. Dahrendorf's brief statement during the discussion recorded in the reports of the above-mentioned 'Trilateral Commission' is an accurate résumé of the position which—together with others, of course—he had already defended on more than one occasion. He deems inadmissible the acceptance of any proposal for 'remedial action' which in practice implies curtailments or limitations of the democratic process, even though it may appear to be supported by a theory concerning the existence of dysfunctional elements in the system. A few brief comments will not be out of place in this connexion. The assumption of kinship between democracy and development would be admissible only if a much broader and more human conception of the latter were accepted—a conception released from the exclusive sway still exercised by that enthralling indicator, gross income. Is there no room for other forms of development at the service of human dignity and freedom? Curtailment of the expansion of education because it proves unfavourable—especially at the higher level—to the purposes of development and social stability is a 'regressive' step for everyone who regards education primarily as a 'human right' to the enrichment of the personality. The tensions between the mass media and the government cannot be eased by stifling or circumscribing the media's cultural effects. And, lastly, one must have the courage to point out the

dangers involved in any hypertrophy of the desire for 'participation' where its introduction leads in practice to the immobilization of the political process. In the democracy of today the traditional sense of 'citizenship' is the most important thing to save, even from the perils of what are often generous attempts to perfect it. Liberal tradition must recognize and accept its own limits, since otherwise it runs the risk of crashing. These echoes of the great classics of political liberalism are a prelude to the keynotes of a 'restorationist' strain of thought which may perhaps gather strength in many quarters without needing to break off its profound dialectical relation with the more ambitious revolutionary hopes cherished by the New Left, or rather with the ideals of the most serious section of contemporary critical thought.

(c) *The New-Left interpretation*

But if we now go along with the New Left, its view of the crisis of contemporary democracy takes us right out of the terrain in which we were moving. For it is no longer a matter of singling out the negative factors making for disintegration in order to cure bad habits as far as possible, but of showing that democracy is suffering from a fatal disease; which means that in any case its future must be envisaged on radically different bases. For in this type of thinking its essential malady is diagnosed as a complete breakdown of the principles of its legitimacy. And as the starting-point is once again a constitutive correlation between democracy and development, the criticism also extends to any other political system which has thrown in its lot with the efficiency of development. But for the moment let us confine ourselves to the

Western countries, where democracy and capitalism interweave the two strands—economic and political—in a single system. It is true that besides the New Left, with its plunge into sweeping cultural criticism, other less heterodox currents of thought had in their time called the problem of legitimacy in question in a different way; that is, by denying its existence as such. According to the theorists of the democratic political patterns proper to late or more mature capitalism, the entire system, concerned solely for its own stability, uses an institutional complex whose one and only objective is the loyalty of the masses, i.e., simply to be able to secure a state of apathetic obedience which is functionally satisfactory. Thus the traditional concept turns into something quite different, since fostering a belief in the validity of a specific political order does not matter as much as promoting the renunciation of all notions of legitimization (C. Ogge).

The New Left neither contemplates such a renunciation nor abjures the old concept of legitimacy, but alleges the brittle falsity of the principles to which at a given moment the more intelligent section of the bourgeoisie resorted. Incapable of secularizing on a lasting basis the images of legitimacy of power formulated by the Enlightenment—and founded on the abstract ideas of liberty and equality, almost sacred in their origins—, it resolved to transfer the legitimization of this 'political class' on to economic grounds. In an adroit résumé of the process, H. P. Dreitzel says that with the development of monopoly capitalism and State interventionism, the legitimacy of the ruling bourgeoisie and of persistent inequality was based on the steady growth of *per capita* income. This idea had already been hinted at in

conservative criticism, which, while recognizing a kinship between democracy and development, did not thereby imply any principle of legitimacy. All that was intended was an empirical interpretation of the fact that democratic organization flourished during a boom in economic growth; and this also warranted certain apprehensions as to what might happen if that growth were slowed up or brought to a standstill.

The New Left, backed by a widespread cultural criticism of our time, carries its negation of the dominant bases of political legitimacy to an extreme, without waiting for this or that specific historical experience to demolish it completely and for any real belief in it to die out. The mission of any culture at a given point of time is to provide the grounds for the legitimacy of the political system, to clarify the assumptions relating to the structure of personal motivations, and finally, to interpret in symbolical terms the natural limitations of human life. As Weber puts it: to offer some of the fundamental 'meanings' of man's existence. The aforesaid H. P. Dreitzel, in an excellent and concise summary of the cultural criticism of our day, including both the spontaneous movements of the various 'counter-cultures' and the philosophical analysis of leading thinkers, deals with each and all of these points, which we have no intention of dwelling upon here and now. Suffice it to bear in mind, as in the case of other aspects of New-Left thinking, that the analysis of present-day democracy, despite the vigour and generous impetuosity of its attack, is also brought up short when it comes to putting together the necessary proposals for reconstruction. What can be the substitute for industrial democracy—capitalist or socialist—and on what economic system can it be based?

It is common knowledge that the strictest conceptual refinements of philosophical criticism have emphasized and perhaps demonstrated the aberration implied for civilization by the predominance of the instrumental rationale. The practical or perhaps historical rationale upon which depend the values people look to in everyday life—ethical and aesthetic values, values relating to community support and fraternity—, has been increasingly dimmed by the instrumentality of the relation between ends and means in science and technique, in economic development and in the technocratic expertise brought to bear on political decisions, leaving the ordinary human being painfully frustrated in his most intimate and most vitally essential aspirations. All the personal—i.e., psychological—*'malaise'* of our time stems from the combination of the alienation imposed by institutions subject to the instrumental rationale with the anomie bred of the frustration of personal values (Dreitzel, Habermas, Schroyer, etc.). The welter of attitudes of protest in our time—ephemeral in some of their manifestations—represents the immediate expression of these tensions in men of flesh and blood. Yet all this energetic movement of rebellion has so far been unable to find its indispensable functional equivalences in the decisive sectors of the economic and political system.

In face of the dangers of a breakup of the democracies of today, the 'conservative' and 'liberal' positions seek to avert the disaster it would signify to throw overboard the values and the meaning which the 'old' institutions still preserve, defective as history may have shown them to be.

Perhaps the movingly human exaltation of the New Left may not be only a

voice crying in the wilderness. In the future more and more strength may possibly be gained by a 'restorationist' type of thought, disposed to take the just criticisms of the iconoclasts into account in reinvigorating all the valuable elements of a civilization that cannot change in a single day, by magic art or by an act of religious conversion, its imperfect institutions, laboriously worked out over a long period of time. A necessary and patiently-sustained dialectical union of such 'restorationist' thought with critical thinking may perhaps in due course establish the balance that is indispensable for reaching a constructive position. It is a question of the possibility of a new type of intelligence—already making its appearance in some quarters—well-armed to meet as from now the challenge of the uncertain future. But this would lead us into a digression which for the moment must be cut short.

(d) *The implications of the post-industrial society*

What is not a digression, although it may seem so in view of the time limits set to the forecast in these pages, is a reference—necessarily brief—to the future image of the society described as 'post-industrial'. For if it should more or less approximately materialize, it would fall within our subject in the context of a question as to what type of government would be appropriate for it. Would it be meaningful to speak of the survival of democratic organization in such a society?

All those who nowadays devote some attention to a structure like this—even beginning with its most careful designer—are doubtful about the form it might presumably take. What, at bot-

tom, does it involve: a new type of society or a transformation of the capitalist system? Post-capitalism, in short, or a post-industrial society? Despite these doubts, however, the writers in question do not categorically deny the presence of certain features which might in the near future stamp it as the latter.

Thus what years ago was an English writer's fanciful presage of a 'brave new world' must be taken more or less seriously today. The idea of a Meritocracy, of a society with a rigidly pyramidal structure, its differences of status predetermined by summing variations in the intelligence quotient to the result of special educational techniques for and exclusive to each IQ, would begin to look like the probable horizon of a civilization increasingly dominated by scientific knowledge. Accordingly, science and technique would constitute the dynamic force of such a future.

The first signs of this transformation, assumed to be incipient, can be detected in the shifts that are taking place to a varying extent in the occupational structure, whose goal is the qualitative pre-eminence of the services sector. Concurrently, or previously rather, the stepping-up of demand for the requisite training has entailed a contraction of the unskilled labour force, within certain limits. This observation, statistically substantiated in most of the industrial countries, is the starting-point for the sociological processing of data and the advance of speculative thought. To take development, for example: is it destined to depend more on qualitative than on quantitative factors? Will not that alone suffice to mitigate the problems posed by its possible limitations? For the purposes of the present article, however, it is the political aspect that is of most interest. If the essential basis of these

and other changes consists in the increasingly intensive penetration of life by science (Shelsky), their political and economic manifestations must be subject to its dominion. Will not the growing tendency for policy to be guided by scientific advisers ultimately hand over to specific experts the full and exclusive responsibility for all decision-making? Some people are beginning to see politics as a mere illusion.

When D. Bell attempts to tackle this subject he is faced with the necessity of a choice between the technocrats and the politicians in the power centres of the future; and although he finally and explicitly casts his vote in favour of the latter, it must not be forgotten that the key feature of his picture of the stratification of power is the predominance of knowledge, university research, technical know-how and skill, education, co-optation, etc. In this connexion, the crucial issue seems to lie in the existence of co-optation as a means of access to power. For notwithstanding the depreciation of technocracy as the summit of political power, it is not easy to conceive of democracy under a political régime in which co-optation takes the place of the free vote, unconfined to exceptional circles. What sort of future would there be—near already, or more distant—for a democracy subject to such conditions? Is this a trend that must inevitably be reckoned with?

Bell himself, apparently more a liberal than a democrat (let us not forget that according to him the sociologically fascinating riddle of a democratic society lies in the fact that as inequality decreases, resentment, in contrast, increases), tends to find the solution in what would be a really just meritocracy. From the standpoint of participation, of the people's share in setting the course

of policy and in arrival at specific decisions, the riddle would be posed in a different way, even if it had to be based on the existence of that resentment. How would it be best to deal with the resentments that find more or less explosive expression in the current movements of protest? Would it not be a matter of

investigating their various causes—over and above the human condition—and how they could be rendered innocuous or tolerable by being properly channelled? Thus we return to the subject of the difficulties of democracy, not only today but tomorrow too. Let us content ourselves with what has been already touched upon.

III. The revitalization of democracy

The foregoing concise analysis of the crisis in the Western democracies—its common factors and divergent trajectories—was undertaken mainly under the aegis of intellectuals of a rightist inclination, since they were men who were more interested in the continuation of such a political system than in its downfall and termination. The factors indicated by them as being at the root of the system's weaknesses therefore enable hopes of a good recovery to be maintained. It would be wearisome, however, to go yet again over the path already covered by examining at this point the proposals made for improvements (the necessary areas of action and the establishment of a generally-accepted agenda). All the negative elements caused by imperfections of an institutional nature, whose manifestation have a long history behind them, are capable of being tackled through reforms inspired by instrumental considerations, which are fully valid in this field: i.e., by the creation of new techniques of social organization which do not, however, claim to offer definitive solutions. In the case of the measures called for by the situation

metaphorically described as 'the shrinking earth', which affects all of us alike, bold efforts of inventiveness and creative originality are demanded which can, however, be facilitated by their co-ordination with those being initiated in the common quest for a new international order. The prospects do not seem completely unpromising as long as the competitive phase of 'détente', which will continue to set the scene for quite a few years to come, is maintained without serious deterioration, since this phase does not rule out the possibility of making some partial amendments, even though the completely new order to which the majority of the countries claim to be aspiring may not be achieved as quickly as could be desired.

Furthermore, it has been assumed in this study that in all probability the rate of economic growth in the next twenty years or more will not be lower than in the decades prior to the current recession, although the more pessimistic observers foresee the occurrence of serious technical complications within the system. Even on the more favourable assumption, however, it would be a

serious political error to persist in the belief that there is so close a correlation between economic development and a democratic régime that the latter depends entirely on the former. On the contrary, revitalizing the democratic system could be an excellent means of sustaining the continuity of development, especially if the apparently unavoidable expansion of planning could be achieved by an effort—hardly as yet successfully attempted—to use the functioning of the system of representation as a suitable mechanism for the parallel channelling of economic and political options: in other words, to try out a parliamentary political régime which would be at the same time an effective organ for democratic economic planning on the basis of the participation of all those concerned, reckoning in anticipation, of course, with their differences and antagonisms. Moreover, there is no reason why, in the time left, an attempt should not be made at a new type of development, less obsessed with quantitative indicators and more interested in those of a qualitative nature. What could be achieved in such a case through a new relationship between development and democracy would no doubt be of decisive importance for the materialization of different and perhaps completely novel ways of life which might be able to survive even when the winds of prosperity drop and the possibility has to be faced of remaining becalmed, as some think might occur in the more distant future, in a stationary economic situation. Against such a time it would be desirable to conserve as far as may be the flexibility and capacity for adaptation and change which the democratic institutions maintain as a matter of principle.

The problem of the 'overload' of demands which seems to suffocate

democratic governments with its weight is undoubtedly of a different nature, since its resolution does not depend entirely on the successful reconciliation of means and ends within a purely instrumental rationale. Nothing can fulfil that mission but a political education under the aegis of the practical and historical rationales which alone are capable of bringing about a change in the attitudes—currently impaired or downright perverted—of individuals and other social units with respect to the State. This is the problem, in reality, of a form of liberalism restored in social and technical conditions totally different from the traditional ones. It is a question intimately linked with that of the essential bases for the complete recovery of democratic life, i.e., the possibility of a full return to its authentic principles of legitimacy. The criticism of the New Left—of sociological reflection as the critical conscience of our time—will remain as potent as ever if the transposition of the bases for that legitimacy is persistently condoned by unhesitating acceptance of the fallacy that they are identical with technical efficiency and success in running the economy. The real legitimacy of a State based on the rule of law, of its liberal function and of the organization of democracy as participation by the people depends on higher requirements relating to the meaning of life both in itself and in its humblest manifestations. We will not speak of happiness, because of its element of unattainability, but let us deal at some length with ways of consciously preventing the occurrence of many avoidable ills.

It was a positivist-type error when men like J. Schumpeter and M. Weber (who were never pure positivists) tried to defend democracy by presenting it as a

mere technical instrument for the election of rulers. Indeed the latter, though a liberal through and through, went to the extreme of proposing his famous formula of a democracy operating through plebiscites. This is not the moment to go into lengthy historical explanations, however.

Neither the rule of law nor the concept of democracy can be reduced to the status of mere instruments; and while the times we live in do not, perhaps, permit a return to the original justification of these two institutions, which was based on natural law (secularized religious elements), it would at least seem necessary to make full use of all that still remains alive in these beliefs, in consonance with the various national credos (the nucleus of political values referred to by the functionalist M. Crozier as being, in the case of France, liberty and equality), and initiate a renewal of a political 'will' open to the anguished protest of needless frustrations. That is to say, a 'will' which really 'wants' to transcend instrumental rationalism and once again found the legitimacy of democratic rule on the supreme values of a form of human society which has a real significance for man and his community. The future of Western democracy depends on whether it can find itself again —renew its 'identity'— in the same generous and enthusiastic spirit of endeavour as pervades the history of its origins.

In a quite recent (1971) manual on political sociology which is widely read in academic circles, the author (Roger-Gérard Schwartzenberg) entitles two of his chapters, in a telling antithesis, *Sous-développement et sur-pouvoir* ("Underdevelopment and over-power") and *Sur-développement et sous-pouvoir* ("Overdevelopment and under-power"). In them

he expounds the doctrine —apparently valid at that time— that there is a correlation between the degree of economic development and the degree of forcefulness of the political authorities. Countries in process of development, according to this writer, seemed to need energetic governments with plenty of mobilizing capacity if they were to develop fully, while in democratic countries at a high level of economic development, in contrast, the public authorities tended to be singularly limp. Moreover, it usually happened that this weakness of the organs of the representative régime was accompanied by an outburst of strong reaction on the part of society against the obsession with purely economic growth and against superfluous wealth (this was particularly so in the United States, during the decade when the so-called 'counter-cultures' were at their most flourishing). All this cannot be categorically dismissed as past history now. But neither can it be claimed, after these few years which have gone by, that the inverted correlation formulated above, with its undeniably impressive impact, can still be said to hold good. In the restricted compass of these pages it has been made clear, on the contrary, that in the richest democracies there has been an anxious call for more authority and a stepping-up of State intervention, destined to increase at the rate dictated by the expansion of economic planning in one form or another. The main concern of the observers cited and many others was that it should be possible for such conditions to exist without causing fatal disturbances in the established democratic régime. Most likely this will not happen, but only provided the régime is willing and able to regain its past energy.

But does the opposite correlation hold good? Is there really no way open to the developing countries but the purely authoritarian path, with scarcely any possibility of representation of the people or popular participation?

It was necessary to start from a factual observation regarding the Latin American countries: the observation that in many of them there is currently a propensity for authoritarian régimes which have at least temporarily suspended the exercise of the liberal and democratic procedures previously known and practised. The very use of the word 'suspended' indicates that there are reservations about this development and that it does not represent a decision so indefinite as to appear definitive. Once again the countries which are in such circumstances display the contradiction inherent in the respective rationales of their political and economic institutions. This is of course nothing new for them, and it has been pointed out so many times before that there is no need to consider it here. Today this contradiction is justified as the inescapable result of the tensions and conflicts precipitated by the effects of economic growth itself, which could not be resolved at the right moment through effective compromises—acceptable to the opposing groups concerned as interim expedients—within the field of manoeuvre afforded by their already long-standing democratic and liberal institutions. Yet at the same time the significance of the role played by these institutions over the years has not been forgotten, nor ever completely denied.

What interests us now, however, is not to go into this subject for its own sake, but simply to follow up the pointers to future developments contained in the foregoing pages. The Latin

American countries as a whole have undoubtedly increased their wealth and well-being in the last few years; and if it is true that the foreseeable picture for the next two or three decades suggests the probable continuance of general economic growth, they may reasonably be expected to enjoy a period of further enrichment, keeping the gap between them and the central countries the same as hitherto, or perhaps even narrowing it. If the likewise favourable prospect for the continuity of democracy in the capitalist countries is also confirmed, the model thus emerging could perhaps help to rub off the burrs of the authoritarian systems prevailing in the region. Provided, of course, it is understood that there is no question of interference or pressures—most of which have a negative effect— or of straightforward copying of foreign models, which is unthinkable in the case of countries now fully mature; but that rather it is a matter of the existence of a generalized political atmosphere which the Latin American nations could hardly fail to breathe too, given their birthright of membership of a common culture and their long-standing spontaneous links—economic, political, cultural, technical and scientific—with the great democracies whose future still holds out a promise. Of course, this is all subject to the general conditions of the world economic order, as long as it retains roughly its present character.

The hazardous days in which we live do not warrant complete confidence in the instrument of persuasion: the circumstances which surround us are the driving force, and the action we can take depends on the way they turn out. It should not be forgotten, however, that in the consciousness of the Western countries still echo the dispassionate but

resounding words with which John Stuart Mill concluded his deeply-reasoned essay *On Liberty*: "The worth of a State, in the long run, is the worth of the individuals composing it; . . . a State which dwarfs its men . . . will find that with small men no great thing can really be accomplished". This conviction of the classic champion of liberalism, shared by other thinkers of similar stature, exalts the supreme meaning of politics and the

decisive value of the human element in shaping a lasting social order. Such an order is the real goal of futurological studies, which give it pride of place over the prognostication—in the last analysis 'reactionary'—of man's possibilities of technological achievement and purely material satisfaction, his income and resources, on earth. Any civilization which is dominated by concern only with these is indeed doomed beyond hope.

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Comments by John Durston

The author has succeeded in expressing, in a style as precise as it is elegant, a deep and sincere concern for the democratic and humanistic values. From the methodological standpoint, he begins "by seeking the support of studies written in a conservative spirit" on the subject of the present and future of "the great capitalist democracies". The article may largely be regarded as an able synthesis of conservative interpretations, since basically they are not at variance with the brief remarks on the ideas of the 'New Left' or with the general conclusions. In point of fact, the statement of the problem in terms of a 'crisis of Western democracy' and of the urgent need for democracy to recover its real efficiency is conservative in the strict sense of the word, since it assumes the existence of a situation, prior to the current disturbances and threats, which should be preserved or restored.

The author bases his summary of the conservative diagnosis primarily on the works of two North American thinkers, D. Bell and R. Heilbroner, who voice their uneasiness about the political trends followed in their country during the past few decades and their anxiety as to the long-term implications. Here I want to discuss, in the empirical context of the recent history of the United States, only one aspect of the conservative approach summed up in the article under review —but an aspect which is in my opinion of great importance for the argument. I refer to the 'overload' of demands made upon the contemporary State.

To condense this argument even further, the suggestion is that a principal cause of the "faulty operation of present-day democracy" lies in a recent overload of new demands and the consequent State transfers and contributions. These claims would seem to constitute a deep-seated menace to the survival of democracy, not only inasmuch as they imply an increasing degree of State interventionism, which would do away with individualism and personal rights, but also because the fiscal impossibility of meeting all these demands for 'entitlements' would inexorably lead to the collapse of the Public Household, or to a curtailment of democratic participation as the only possible safety measure whereby to conserve that very democracy itself.

But who are the 'individuals or groups' that are urging these excessive claims, and why are they doing so? Sometimes the 'civic consciousness' in general would seem to be the source of this view of things, according to which the new consumer aspirations have acquired the character of entitlements. But the article makes it quite clear that it is not the general public that is responsible for this overload; it is the groups which have not been able to satisfy their demands through the market that 'peremptorily' and "transcending the principle of equality of opportunities predicated at the start, in reality call for actual equality of benefits". It would hardly be an exaggeration to formulate the conclusions of the argument as follows: certain groups and individuals that have been

incapable (from limited intelligence or from laziness?) of availing themselves of the equality of opportunities to satisfy their consumer wants, are now claiming as a right the satisfaction of their needs and wants by the State. These excessive demands are a threat to the stability of the democratic system itself; it would be partly imputable to the irresponsibility of these groups if the outcome to be faced were a fiscal crisis and the danger of an authoritarian and interventionist régime.

The article offers no indication whatever of the identity of these groups. It is common knowledge, however, that in the United States this controversy was precipitated by the new demands and the new ways of putting them forward that emerged in the chronically poverty-stricken sectors: the black and the Spanish-speaking populations; the indigenous groups; and the whites of Appalachia (miners, smallholders, migrant agricultural workers), which, although minorities, make up in the aggregate about one-third of the national population. But in the context of the operation of the socio-economic system in the United States, it is perfectly possible to interpret these demands in a different way, which would lead us to conclusions very different from the concept of an 'overload of demands'.

In the study by Medina Echavarría it is categorically declared that no attempt will be made to examine in detail the relation between political and economic institutions. Strictly speaking, it is a matter of divorcing 'political science' from 'political economy'. Such a decision seems particularly regrettable in the present case, for several reasons. The relegation of economic factors (with the exception of the growth of the gross product) to the *ceteris paribus* of the

analysis eliminates several economic premises as implicit bases of the political analysis; what is more, although the new demands of the groups in question certainly included their basic civil rights and some measure of proportional participation in the public decision-making process in general, they were (and still are) mainly economic demands, as the article itself makes plain. By evading discussion of the relation between politics and economics, the analysis discounts the possible economic causes of the crisis, besides ruling out solutions which would imply structural changes in the economic sector.

But before considering the causes underlying the underprivileged sectors' new demands and possible ways of dealing with them, let us briefly revert to the economic assumptions implicit in the conservative argument. The most obvious is the idea that real equality of opportunities exists in the United States. It is sufficiently proved and admitted that this aspect of the *American Dream* is largely a myth; although a certain very limited social mobility does exist, from which one-third of the population has been in fact excluded. More subtle are the implications latent in the assertion that the demands of these groups constitute a danger for democracy because they are new, peremptory and likely to overstrain the capacity of the Public Household. In reality, the history of economic development in the United States is in part the history of the demands and pressures brought to bear on the State by the economically powerful sectors, from the railroad owners and the great financiers of the past century, to industrialists in the steel, motor-vehicle, petroleum and other sectors, and the giant defence industry of today. They attained most of their objectives in the shape of special policies and concessions, not be-

cause these demands were fairer than those made by the deprived groups now, but because they were put forward by powerful sectors. Acceptable, too, are the nowadays traditional demands of certain professional organizations, such as the powerful American Medical Association, and, after an initial period of struggle for their rights, the great industrial trade unions which constitute a sort of labour élite with exclusivist mechanisms of its own. If these groups' demands on the State have not exceeded the latter's capacity, it is because the present 'pluralist' political system represents precisely the product of the various demands and influences of the interest groups and the private sector. Obviously, the black and the Spanish-speaking populations, etc., have been traditionally excluded from the system as far as full economic and political participation goes. The mechanisms and causes of this discrimination are many and complex, and are mainly of economic origin, although among them racism cannot be overlooked.

The recent demands of these underprivileged sectors are 'new' in several senses. In the first place, they are demands for State guarantees of a new type, respecting equality in employment, several non-traditional services, etc. The history of these movements certainly began with demands for equality of opportunities, but it gradually moved on to demand for "actual equality of benefits", and this for two main reasons. Even if future generations were to have opportunities equal to those of the other sectors of society, one-third of the present population would continue to be poor because it had not enjoyed that equality "at the start"; and, furthermore, it soon became clear that the measures applied (access to education, non-discrimination in em-

ployment, etc.) did nothing to undermine the real mechanisms of economic discrimination. In this context, the quota policy (in higher education, in employment, etc.) is essentially a "liberal solution", since it is not based on a full appreciation of the relation between the social classes and does not seek to bring about fundamental changes in the relevant economic institutions.

Secondly, the tactics employed by the underprivileged groups were also distinctly novel, especially during the 1955-1965 decade, when the black civil-rights movement was in its heyday: marches, boycotts, sit-ins, etc. Pressures on the State within the pluralist system are exerted through the local 'machinery' of the two great traditional political parties, and through lobbyists or professional agents of the pressure groups and enterprises in Congress itself.

In contrast, the 'passive resistance' tactics of the deprived groups produced their impact partly in the form of direct economic pressure, but much more through the moral confrontation of the general public with the realities of oppression. In this sense they constituted a tremendous stimulus to civic responsibility, a 'conscientization' with respect to the true principles of democracy —that is, the very opposite of a threat to such values.

Lastly, since the new demands represent pressures on the part of groups which have always been outsiders in the pluralist democracy, they logically exceed the possibilities of the existing structure of the politico-economic system.

From this standpoint, therefore, in what sense could it be said that a public medical insurance scheme (to take the only concrete example of 'demands' given in the text) constitutes an overload

on the system, or a threat to democratic principles? Innovations of this type, based on concepts of social justice, would manifestly imply substantial changes in the distribution of income, economic power and political participation, but it would be absurd to argue that they exceed the capacity of the United States economy. As regards the jeopardy in which increasing State intervention might place creative individualism and personal rights, it must be remembered that there are several forms of interventionism. The intervention of powerful economic interests in public affairs is obviously not very democratic, nor, by definition, are the restrictions imposed by an authoritarian State. But popular

participation in decision-making is in itself a kind of interventionism in the economic field through the State: it would make a difference to the operation of an economic system at present based on the decisions of the great enterprises, yet it does not necessarily imply any diminution of personal rights, much less a 'crisis' of democracy. It seems more than ironical that some authors of functionalist analyses, while rejecting at the outset solutions that imply structural economic changes to resolve the problems and demands stemming from socioeconomic inequalities, find it perfectly acceptable to contemplate the possibility of a curtailment of democracy as the only remedy for this 'crisis'.

Comments by Carlo Geneletti

I very much appreciated Medina Echavarría's article because of the decision and clarity with which he approached a problem of major significance and profound relevance for us.

However, there are two points of differing importance about which I think it would be useful to raise some doubts. The first, and the less important, concerns the statement that the type of political system prevailing in the Western countries influences the trends towards change in the political systems of less developed countries. It is not clear whether, by this, he means that the democratic régimes might use their economic power to impose political projects which they favour, or whether he is merely thinking of the spread of cultural patterns. In the first case I believe that the statement would be mistaken, at

least in its general sense, while in the second case the connexion, if there is one, in my view is only very slight.

However, the main point that I wish to discuss is his assertion, firstly that the Western democracies are passing through a period of crisis, and secondly, that this crisis also affects the democratic ideal—Democracy with a capital D, understood as a system of protection of personal rights and of channels for popular participation in the running of the *republic*. It seems to me that the author shares this conception of democracy, since he expresses concern lest the basic values of Western civilization may be threatened by the difficulties which these political systems are experiencing. I do not entirely go along with the first assertion mentioned, however, and I particularly disagree with the second, so let us analyse each in turn.

First of all, is it really true that the Western democracies are in a state of crisis? The reply cannot be the same for every country. If by crisis we are to understand, as the Trilateral Commission does, a trend towards the breakdown of established authority, economic and financial crisis, the division of society into openly conflicting groups, and a situation of increasing ungovernability: in short, if crisis means the growing illegitimacy of the power system, reflected in a high degree of instability, then few countries in Europe and North America could be considered to be in a state of crisis. France is not, and neither is Germany, whose political system has been stable since the post-war period. Could it be asserted that democracy is in a state of crisis in the United States? What basis would there be for this?

In reality, it seems undeniable that the assertion is based almost exclusively on the Italian situation, and that the author, like the Trilateral Commission, considers Italy to be the weakest link in the chain, the test case for all the Western democracies, so that the crisis of the Italian political system anticipates and points the way to the crisis of the other systems.

I could hardly argue with the view that, in most of the developed countries suffering from economic crises, the conflicts between the executive and legislative powers over questions of efficiency, the difficulties of the traditional parties in channelling the demands of the social sectors, and the overload of pressures on the State for employment, benefits and services, have all increased the causes of social conflict, while at the same time they have reduced the possibilities of political negotiation between the opposing sides.

Nevertheless, the chief aim pursued in the crisis of the Western political

systems, to put the matter in somewhat idealistic terms, is the expansion of democracy rather than its abolition. Although my view of European events from such a distance may be a little out of true, I have the impression that the kind of democracy which is in a state of crisis is the reduced and limited democracy which has prevailed in the Western countries since the end of the war, and that the main trend of change to be seen in these countries is towards a democracy of broader scope.

Since the case of Italy is the most typical, I should like to refer to it at greater length, laying emphasis, of course, not so much on the individual case as on the possible theories that may be deduced from it.

The political system still in force is the same, with some modifications, as that established at the time of the first elections of the republican régime, which brought about —because of the need to stimulate the economy, the Marshall Plan, and the presence of foreign troops— the exclusion of important groups of the population (the peasants in the south and a large part of the workers in the north) from political influence and from the benefits of economic development. It is hardly necessary to recall that this exclusion was by no means bloodless, but was accompanied by riots, the rebellion of whole cities, sanguinary acts of repression, and political tension lasting for several years; it was only possible to bring the situation under control by recourse to such palliatives as agrarian reform and national and international migration.

Economic development was based chiefly on the compression of the domestic market and the export of goods of intermediate technological content, whose prices were competitive in the

European market owing to the low cost of labour. It was only from the time of the "hot autumn" of 1969, and thanks to trade union pressure, that a significant redistribution of income in favour of the wage-earning class, with a consequent expansion of the domestic market, was achieved in Italy. Even so, the effect of unearned income, sinecures, and the State bureaucracy was to maintain situations of economic privilege incompatible with economic efficiency, and consequently prejudicial to the welfare of the lower classes.

With regard to the exclusion from political participation, suffice it to say that not until the 1970s was the Communist Party (supported by more than a quarter of the population) admitted, albeit marginally, into the spheres of national political power, although not into municipal institutions, especially in the centre of the country.

These brief observations show that the Italian democracy was an incomplete democracy. In saying this I do not wish to belittle its value, but only to affirm that its concept of legitimacy was limited and exclusive, and that there is still a long way to go in the process of democratization.

To sum up, then, the crisis of the Western democracies does not signify a crisis of democracy. Carefully considered, the causes of this crisis, as specified by the authors whom Medina Echavarría quotes, also point to the same conclusion: the conflicts between the supposed efficiency of the executive power and the responsibility of the legislative power, the crisis of the representativeness of political parties (including the Communist parties), the so-called overloading of

the State with demands, which reflects the increased power of the lower classes to exert pressure, all indicate a state of conflict between the old order and the recent demands for popular participation, while at the same time they represent a transition towards new forms of democracy. For these reasons I do not share Medina Echavarría's basic concern.

However, I do not want to leave an over-optimistic impression, either of the Italian situation or of the trends towards change. Although in my judgement it is a fact that the dominant trend of political change in Italy is towards the achievement of a more complete democracy, I do not wish to imply that political instability has a natural tendency to bring about this aim. If the conflict arising from the demands for participation by the excluded groups were to produce—as is feared by some leading Italian statesmen such as Amendola—a reaction towards an authoritarian political system, democracy would obviously suffer. It is impossible, however, to attempt a prediction.

I wish to conclude these comments with the following observation: I have tried to show that the crises of the Western democracies do not constitute a crisis of democracy, and I have referred principally to the countries most frequently cited as examples: Italy and, to a lesser extent, France. I think, however, that the attention of those interested in the fate of democracy should move further north, to Germany, where there does indeed exist a democratic system which respects democratic procedures and formalities, but where there are also signs of a dangerous tendency towards the reduction of civil rights.

Comments by Eduardo Palma

The article by Medina Echavarría is, in essence, an attempt to forecast the democratic régime's chances of survival in the near future in the countries where advanced capitalism prevails, and the consequent repercussions on the political systems of the Latin American countries. For the purposes of this intellectual exercise, the author does not conceal his preferences in respect of values, but acknowledges them, as a tribute to a humanistic tradition.

Great care is taken to keep the prognosis within such limits and of such a character as to overcome not only the difficulties inherent in separating events from their interpretation, or in linking up the possible futures depicted by authors and schools of thought with their specific ways of understanding society, but also the additional stumblingblock represented by what the author calls 'moot questions', where the fact of dealing with contemporary phenomena makes it impossible to form conclusive opinions as yet.

My brief and fragmentary remarks are directed towards three aspects of the article. The two basic comments relate to that part of its significance which, as I personally interpret it, is grounded on the 'history of the origins' of democracy, and to the author's conclusion with respect to the 'revitalization of democracy'. The other, which is of a more circumstantial nature, although linked to the foregoing questions, has to do with the technocratic modality in the Latin American régimes. The article in itself would suffice to warrant a respect-

ful silence; and if I venture to make these comments it is because I hesitated between the role of annotator—'gilding the lily'—and that of conformist—accepting that there should be 'a voice crying in the wilderness'—until in the end my difficult choice lighted upon the former.

With regard to the profound underlying significance of the 'Notes', I repeat the phrase I have already quoted: 'the history of the origins' of democracy. This, in my opinion, points to a decisive question: there exists—probably beyond the domain of philosophy and in the realm of social science—a mass of historical information and various ethical value criteria for a theory of democracy as a political system. What is more, only democratic theory is meaningful as a continuous background extending past the time-limits of each particular political régime. The shaping of democratic theory, as from its Greek origins, permits the accumulation of its own body of wisdom, when its content is abstracted from the vicissitudes of any given historical conjuncture.

Conversely, the authoritarian régime does not possess a cumulative history that can be defined as development in various areas of human progress. In other words, authoritarianism begins and ends with itself. (It would take too long to give details here of the enterprise represented by Hobbes' *Leviathan*, or to specify the Roman origins of the institution of the Caesar, at the time of the decline in democratic customs.)

Whenever a generation of intellectuals wishes to turn over the page of the

complex tradition of the democratic school and open an unpublished book, the tensions that affect the content of their promise of utopia reappear under apparently novel guises. This is why—to refer to a case cited by Medina—Weber and Schumpeter, under the influence of the positivist spirit of their times, impoverished the content of the democratic dimension. It must be pointed out that Schumpeter's contribution was intended to design a transitional mode of operation for socio-economic régimes, while keeping the democratic political system constant. The refinement of his scheme of electoral competition between teams of leaders representing a government formula and individual candidates for power involves a functional interpretation of democracy which neglects certain of its aspects that are considered essential in our day. They imply a new consciousness of individual rights, and an increasing concern for social autonomies and social consensus, matters classifiable under the head of social and political participation. It is only fair to the author of *Capitalism, Socialism and Democracy* to recognize that his positivist emphasis must be viewed against the background of his entire contribution to theory, in which democracy as he sees it is unquestionably assimilated to a way of life.

A current trend in social analysis which postulates, in the Latin American scenario, an elective affinity between technocratic patterns and authoritarian régimes may, if the terms of reference are not clearly defined, tend to undermine the principles of authority and efficiency of democratic legitimacy.

Medina speaks of these régimes and principles as 'moot questions', moot of course while investigation is still continuing, at least in Latin America, with respect to 'authoritarian-bureaucratic'

régimes or the role of the technocratic estates. Here the simplest questions must be framed—who form the so-called technocracy, how, where and when?—so as to explain in a more complex fashion its role in contemporary Latin American régimes. And this not from empiricism, but because up to now it is not clear at what level of development or growth and in what historical context technocratic bodies emerge as the power élite. Moreover, the mere presence of technocracy does not appear to be an inherent and exclusive modality either of authoritarian or of democratic régimes.

The article under consideration concludes with some reflections on the revitalization of democracy within the next two or three decades, on the assumption of continuance of the international *détente*. The form in which this revitalization is presented is neither more nor less than the democratic planning towards which the author's thinking has long been directed. One need not be unduly prejudiced to imagine some replies to the proposal. Nevertheless, let us acknowledge that among those most disposed to support this 'tomfoolery' it has been the object of verbiage rather than of methodical research, much less of attempts to introduce it.

The issue involved in the proposition, however, is and will continue to be crucial. The growing tendency of social groups to programme their activities means already that the existence of order—somewhat more exacting than equilibrium within an accepted disorder—will entail bringing political and economic institutions into operation under a national planning system. There is no guarantee that this will be democratic. The futurological debate does not make for optimism while it continues in its present style of parallel lines of thought.

The phrase 'parallel lines of thought' is intended to highlight the widening gap between scientific monism and social criticism. The two ways of thinking manifest no empathy whatsoever: they keep their discourses strictly parallel. No search has been made for the procedures, mechanisms, instruments and institutions which could really reconcile, within a common social technology, the political demands for participation with the canons of economic and social theory. I have deliberately assumed that the science and the criticism to which I refer are optimum products in their respective branches of knowledge. I know

that this is not always the case; in that event, their mutual estrangement paves the way for all the obfuscations proper to those who lack a common term of reference.

To conclude, if the study were just one more testimony to the existence of an unaccomplished task, that merit alone would qualify it as a real contribution. But since the author bases these 'Notes', as he modestly calls them, on vigorous backward- and forward-looking cogitations upon the future outlook for democracy, they are an invitation to put into practice "the ways of consciously preventing the occurrence of many avoidable ills".

Comments by Gregorio Weinberg

The power of suggestion is one of the many virtues of José Medina Echavarría's alert and sensitive thinking. His reflections enrich analyses and formulations, and go straight to the heart of any problem; hence their perusal is always stimulating. In this sense, his article "Notes on the future of the Western democracies" brings us face to face with what are some of the most vital issues of the contemporary world, since they relate to the destiny of the human race, yet does not on that account disregard the specific characteristics of the Latin American process at this critical juncture in the region's history.

Out of the compact sheaf of questions laid before us with so much acumen, we will take up two. The first relates to the author's timely reminder that "in the history of thought, liberal and democratic ideas precede and are independent of conceptions respecting

economic development": that is, they cannot be validated only by the success —nor, therefore, refuted by the failure— of their capacity to meet the requirements of increased well-being. The difficulties habitually encountered by all attempts to reconcile 'democracy and development' are not observable in the under-privileged regions alone (as might be presupposed at a very rapid glance, in view of the growing institutional instability of the developing countries, and the frequency with which they deviate or debouch into authoritarianism). Rather do they constitute, as Medina Echavarría stresses, a key concern of political thinkers everywhere and of all tendencies, for they underlie the whole spectrum that stretches from conservative interpretations to those of the so-called 'New Left'. What is more, "the criticism also extends to any other political system which has thrown in its lot

with the efficiency of development". In short, neither by their origins nor by their future are the concepts of 'democracy' and 'liberalism' necessarily linked to those of capitalism as an economic system, and much less still to the efficiency criterion, whatever the code of values selected as a point of reference.

To corroborate the conclusions of the foregoing paragraph recourse to history will suffice. We will dismiss straight away the facile arguments of those who attempt to impugn the concept of democracy from its very origins, and to that end recall only that it was confined to a small number of 'citizens' and excluded slaves and foreigners, even though these latter sometimes formed the numerically largest groups. They forget, however, that it has been undergoing elaboration and enrichment from the time of the Greek city-State to our own day. In any case, such reasoning is a very shaky foundation for criticism of what are still fruitful elements in the ideas of Plato and Aristoteles, since stating the question in those terms means shirking the real issue, which is not a matter of justifying a restricted democracy such as that undoubtedly was, but of creating the necessary and adequate conditions for progressive expansion of the range of participation (in addition to the guaranteeing of rights) until it is made really universal.

But let us look at another example closer to ourselves. Spinoza, for instance—to cite one of the greatest thinkers of the modern world, and perhaps one of the least remembered—, in his *Tractatus Theologico-Politicus*, when he is analysing the various known political régimes, considers democracy to be the best of them, for its government is based on reason, since in it—in democracy—

sovereignty is vested in the person of the human individual. Still according to Spinoza, in the *republic* (that is, the political community), *authority* (for him a synonym of legitimate power) rests on the *jus naturale* (the law of nature, i.e., the law of self-preservation, and preservation of one's rights, not only as a reality but also as a potential), which does not, to be sure, fail to recognize the *jus judiciale* (the law of society), but sees it as a means of safeguarding the idea of *tolerance*. Shortly afterwards a decisive contribution was to be made to the theoretical formulation of this last concept by John Locke, precisely one of the greatest architects of liberalism, in whose system the right to own property came to be given a privileged place. But at no point in his reflections, formulated—obviously—during the century of absolutism and of the consolidation of national states, does Spinoza resort to economic arguments to lead up to his conclusions, still less to justify them. Thus, in this seventeenth-century rationalist we find a forerunner already concerned with "secularizing on a lasting basis", as Medina Echavarría puts it in relation to the following century, "the images of legitimacy of power formulated by the Enlightenment". Consequently, the fundamentals of the democratic society are legitimized in ways perceptibly divergent from the paths followed by those who pursue the same end today via the 'instrumental rationale'.

This is not the place to explore the background of the ancient concept of 'democracy' or of the more modern idea of 'liberalism'; nor to stress their distinguishing marks or to linger over an attempt to discover the intentions of those who confuse them. What is of interest, in our opinion, is to underline the fact that they have a history, since this

criterion, on the one hand, facilitates their dissociation from specific régimes; and, on the other, makes it possible to relate them –especially the first– to a very old tradition of incessant search for the appropriate means of satisfying human aspirations, which, of course, transcend those concerned with “purely material satisfaction”. Nor does this approach shut out the potentialities of utopian thinking, which, although it does not hazard an interpretation of existing realities (a task, moreover, impossible for it, since strictly speaking it is not analytical), nevertheless can constitute a proposal for action. Provided that, as Ernst Bloch insisted, the utopia meets the twofold requirement of being satisfactory as a theory and efficacious as a praxis.

The second question, which we shall touch upon very lightly, is a reversion to the theme of what Medina Echavarría calls the “narrowness of national boundaries” and the political problems it involves, ranging from the constitution of regional units to the exploration of the possibilities for “establishing international authorities”. His remarks in this connexion suggest the innumerable difficulties raised in relation to the problems of democracy and its future –the focal point of the article under discussion– as well as the tests to which democracy is and will continue to be subjected. On our part we would venture to assert that the depth of the contemporary crisis could perhaps also be sounded from another point of view, not indeed completely divorced from that of Medina Echavarría, but expressed in other terms and approached on a different level.

Man in our day has witnessed a convulsion in his categories of space and time –not to mention others– whose dimensions and characteristics generate

much of his *malaise* (to refrain from speaking of a concept so mishandled and at times equivocal as that of ‘anxiety’). These assertions may be illustrated by recalling three significant moments in the course of history.

(a) The first consists in the transition from the Greek city-State to the Hellenistic empire, which generated a veritable civilization, distinguished by its brilliant lights and the uncompromising darkness of its shadows, in which strong individualism existed alongside a no less intense cosmopolitanism, engendering a *rootless* human being who looked on in perplexity at the rapid ousting of the culture of the cities by another with claims to universality (although its whole ‘world’ was a modest sixteenth of the planet).

(b) The second was the Renaissance, when within the short space of a few decades geographical discoveries gigantically enlarged the earth, and the theories of Copernicus deprived it of the privileged place it had held in the Ptolemaic system which had pervaded the western *Weltanschauung* through and through. (The known evidence seems to suggest that for sixteenth-century man the difficulty of grasping a fact so astounding as the existence of the Antipodes was apparently much greater than any that our twentieth-century contemporary finds in coexisting ‘naturally’ with manned spacecraft. Similarly, for the former –living in a markedly hierarchical society– it must have been easier to accept in a fatalistic and passive spirit the prevalence of poverty, famine or plagues, perhaps to some extent made tolerable then by their very inevitability, than for us –children of a more affluent society, vigorously mobile and fluid– at a time when historians as conservative and ethnocentric as A. Toynbee can say

that in view of our economic situation social injustice is becoming avoidable and therefore intolerable.)

(c) The third is our own time, when, again in an interval of only a few years, contemporary man has sallied forth into the universe (as witness his daring feats of space travel), and in the laboratories has explored the microcosm of the atom and succeeded in liberating energy by splitting it. The particular form of human tension deriving from confrontation with the macrocosm and the microcosm, combined with many others, such as those stemming from the speeding-up of the tempo of history, the disruption

of most of man's frames of reference, and the doubts consequently cast on many of his accepted values, constitute additional elements that no searching criticism of the culture of our age can afford to disregard. On the contrary, it must take them in conjunction with the motives of concern for the future of democracy—as enunciated by Medina Echavarría—in order to understand that if the contemporary world has new dimensions and new contents, it also needs new tools and new attitudes for their analysis and comprehension. All of which represents an unparalleled challenge to man's intelligence and imagination.

Comments by Marshall Wolfe

As one has learned to expect from an essay by this author, the text is so tightly knit and deals so judiciously with the questions it sets itself that it leaves few loopholes for comments. On rereading one finds discreetly suggested and dismissed what one was at first tempted to point to as omissions. The main factors bearing on an uncertain future and the reasons for hoping that pluralist democracy will hold its own against 'authoritarian democracy' and 'people's democracy' (since the future of the word 'democracy' as a symbol of legitimation for all kinds of régimes seems assured) are here. The essay will start each reader on his own mental exploration, possibly leading to other essays rather than comments.

The author makes use of one prognosis borrowed from certain economists to make somewhat smoother the future of pluralist democracy: that the central

countries can expect more than twenty fat years of economic growth in which to reform their styles of development and prepare for a longer-term future in which such growth will no longer be feasible, in which 'development' will have to focus on quality rather than quantity. Are these twenty-odd fat years either probable or desirable? As to the *probability*, one can surmise a predisposition on the part of crusaders for a 'new international economic order' to suppose that the central countries are going to be in a position to meet the demands now being made on them without undue strain. In view of the multiplicity of problems with which the central countries are now contending, however, the odds in favour of such a future seem to be poor. As to the *desirability*, an additional twenty-odd uninterrupted fat years would almost inevitably mean a relapse into complacency; they

would entrench still deeper the life styles of the consumer society, possibly even more in the semi-developed peripheral capitalist countries than in the centres themselves. Neither in pluralist democracies nor in authoritarian régimes dominated by beneficiaries of the consumer society can one expect the partnership of a Pharaoh plagued by bad dreams and a futurological Joseph to plan realistically for the lean years.

Perhaps the best that can be hoped for and also the most probable immediate future is one neither so dynamic economically as to strengthen the momentum of growth for its own sake nor so catastrophic as to overstrain the capacity for adaptation of the pluralist democracies; in other words, a future not too unlike the present. A learning process is under way in the central countries that are also pluralist democracies, paradoxically combined with a paucity of inspiring leadership and images of the future capable of mobilizing consensus. There are grounds for hope that the accompanying debate and the concomitant groping for different life styles, while confused and conflictive, are generating a capacity to reach democratically new positions regarding social equity, protection of the environment and husbanding of resources. Already some aspects of life styles and some demands made on the State have changed in ways that would have been inconceivable a few years ago. The question remains whether the continual responses to new challenges and sources of insecurity can proceed with a reasonable degree of flexibility, innovativeness and perceived participation in decision-making, or whether the societies will become enmeshed in technically-based regulations and legal protections of group rights so complex that pluralist democracy will become irrelevant.

It is possible that the 'new form of intelligence' that Medina points to and then sets aside for future exploration will mean a certain devaluation or delimitation of political democracy—a version, approached through devious historical paths, of Marx's replacement of the State by the 'administration of things' or Christ's injunction to 'render unto Caesar that which is Caesar's.' That is, a technocratic administration might be accepted with indifference as long as it does not demand too much nor make too egregious blunders, while the people, whether individualistic or communitarian, would place its main interests elsewhere. The preconditions would include achievement of an acceptable level of consumption and services for at least the visible majority of the population, consensus between the technocrats and the articulate parts of the population concerning the limits of growth and the futility of national aggrandizement, priority for interests that can be satisfied without significant increases in productive capacity: sex, sports, meditation, rituals.

The implications for the rest of the world of a future of 'cultural mutation' (the term proposed by Alain Touraine) within pluralist democracies in the central countries are obviously complex. The likelihood that these countries will presume to act coherently as *dei ex machina* to bring into being a new international economic order diminishes. One can expect a turning inward combined with a projection on the rest of the world of the issues being debated within the national societies. Vicarious utopianism—the disposition to identify and aid new styles of development in poorer and supposedly simpler societies—will coexist with rejection of responsibility for the problems of the rest of the world.

Public censoriousness toward national societies that combine dynamic economic growth with highly uneven distribution and disregard of environmental damage, under the control of authoritarian régimes, will coexist with tangible signs of favour for such patterns from the transnational enterprises and lending institutions.

Under these circumstances, the Latin American national societies cannot expect to receive unambiguous signals from the pluralist democracies in the central countries; different groups will empha-

size the signals that correspond to their own preferred style of development. At the same time, as semi-developed countries that are tributaries of the same systems of political organization and culture as the central countries, struggling with intensified versions of the same crises, the Latin American countries transmit signals that have a real impact in the central countries; in particular that the penalty for failure on the part of pluralist democracy to cope with such crises may be the fitting of the national societies to an authoritarian bed of Procrustes.

Small nations and the 'constrictive' style of development

*Carlos Real de Azúa**

In 1975 CEPAL submitted a request to a distinguished Uruguayan intellectual, Carlos Real de Azúa, for a study on the special economic and political development problems that small nations have to face. The author prepared a first draft in that same year, but, for various reasons, never completed the final version. Now, when all who knew him are lamenting his untimely death, we wish to pay him the modest tribute of publishing part of his study in the form of an article.

He begins by outlining the general characteristics of the 'national size' phenomenon and exploring what has been said on the subject by some of the classical writers —such as Aristotelés, Plato, Montesquieu and Rousseau—, and then goes on to present the criteria in the light of which, in his opinion, the economic and political significance of national size can be evaluated. On this theoretical basis, he examines in detail the way in which the small size of a nation can affect certain economic and political conditions of development, including, *inter alia*, the available supply of natural and human resources, the size of the market, industrialization, external vulnerability, capacity for internal political control and social cohesion and homogeneity. In the last section, he analyses the possibilities of applying, in the case of small nations, what he has called the 'constrictive' style of development.

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1. *The subject of national size*

A nation, or more accurately a nation-State, is the ordinary scene of operation for a style of development, and this specification has serious and substantial implications. As a collection of miscellaneous resources, as an area of conceivable viability, the nation-State scenario may be one of the most commonsensical determinants of the choice of a style; nevertheless, it would not be far wrong to infer that the selection of styles is decided by other motives and that the weighing-up of viability, conditions and resources is a task of estimation carried out '*a posteriori*', with all the contingent adjustments and amendments that it may entail.

Be this as it may, nation-States and styles of development are two phenomena which up to now have been generated in completely diachronic fashion; the former came first and the latter very much later, although the gap between them may seem narrow in the case of the 'new nations'. Even today, however, Cobban's remark holds good: when a nation is seeking self-determination it does not do so on the basis of a balance-sheet of positive and negative qualifications.¹ At one stage of history or another, then, the national entity appears as the primary and inexorable determinant of the bounds within which any system of growth or development activities must operate. The practical consensus existing on this point obviates the need to dwell on it further.² Self-

¹ See Alfred Cobban, *The Nation-State and National Self-Determinations*, New York, Thomas and Crowell Co., 1970, p. 137.

² Cf. Helio Jaguaribe, "Los modelos políticos y el desarrollo nacional en América Latina", in *Aportes*, N° 6, Paris, October 1967, pp.

sufficient and independent, or hopelessly needy and dependent, the nation-State as a concrete reality counts for a great deal, and it is not a matter of indifference that in the second of these alternative cases —that of indigence— even the most cogent external imperatives have to go through a process of authentication via a system of adoption of formally ‘final’ decisions, supposed to be implemented unilaterally within a given *milieu*.

Today, in reality, the nation-State, or the nation pure and simple, appears, in contrast to all the premonitions of its decadence —and also to all the emphasis placed on its invincible might— as a form of human and spatial organization whose characteristics can be defined by a series of highly contradictory epithets: increasing in terms of number (about 50 new nations in the last few decades); tremendously durable and steadfast to withstand all potential aggressions on the part of powers in the ascendant; inescapable or indispensable in all kinds of promotion activities, although at the same time frail and insecure; conditioned by history; inadequate and inappropriate for a large number of functions and requirements;³ and perhaps destined, in

8-9; Marshall Wolfe, “Development: images, conceptions, criteria, agents, choices”, in *Economic Bulletin for Latin America*, Vol. XVIII, N^{os} 1-2, 1973, p. 5; Marshall Wolfe, *Report on a unified approach to development analysis and planning* (Preliminary report of the Secretary-General) (E/CN.5/477), document presented at the twenty-third session of the Commission for Social Development, October 1973, p. 8; Marshall Wolfe, “Approaches to development: who is approaching what?”, in *CEPAL Review*, N^o 1 (First half of 1976), United Nations publication, Sales N^o: E.76.II.G.2, p. 142.

³It would have been hard to imagine, for example, in the years when William T. Fox was

the remote future, to give way to broader or more ambitious patterns of human and spatial organization.⁴

But for practical purposes it would be unrealistic, or, above all, dangerous, to discount any nation as an absolute rather than as a relative concept: a nation, as someone has noted, may be integrated as solidly as a private firm or so loosely that it is pointless (or, more exactly, almost pointless) to treat it as such.⁵ In any event, we believe it may usefully be examined ‘as such’ in one of its facets —that of size— in relation to development and development styles, leaving for another possible occasion the much-canvassed topic of patterns of amalgamation or integration which will wipe out or offset its shortcomings.

Among all the problems posed by the national entity with respect to development programming and styles, that of size will be the sole —but very complex— question to be tackled here. And assuming that large national areas and populations do not constitute any obstacle to promotion policies, only one of the extreme dimensional possibilities —smallness of size— will be discussed.

theorizing about ‘superpowers’ and Carl Schmitt about international hierarchization (1939, 1944), that a third of a century later one of these powers was going to stand in such urgent need of the other’s natural gas, and the latter of the former’s intermediate technology.

⁴With regard to these characteristics, see especially Karl W. Deutsch, *Nationalism and Social Communication*, The M.I.T. Press, 1966, pp. 3 *et seq.*

⁵See I. Sventnilson, “The concept of the nation and its relevance to economic analysis”, in *The Economic Consequences of the Size of Nations*, Proceedings of a Conference held by the International Economic Association (ed. E.A.G. Robinson), London, MacMillan and Co. Ltd., 1960, p. 2.

Perhaps it is because "never before have national units so numerous and exhibiting such wide variations in size. . . participated as juridical equals. . . in a common world order"⁶ that the attention attracted by the problem of national size has been less sporadic and impressionistic than that reflected in the history of ideas on the subject which will be briefly recapitulated below. 'Sheer size', says Apter, "is an obvious organizational factor that is often neglected".⁷ But in considering the 'national measurements' which the size factor involves, the time factor cannot be left out of account: each period of history implies its own, and whereas in the nineteenth century they mattered almost exclusively in relation to financial resources, military defence and political structures, today they are of importance first and foremost in terms of industrialization possibilities and market size.⁸ The question of the 'optimum national scale' is posed, in any event, with reference to the maximum returns on the potential of a given space and the fullest satisfaction of its inhabitants' needs; and it is this duality of applicable criteria that opens up the possibilities of appraising what size can

achieve at two different levels and even classifying those achievements under the broader and not necessarily coincident heads of efficiency and legitimacy.⁹

2. A glance at history

There is really nothing systematic about the adoption of the two points of view in the rather meagre history of the subject of community size. We use the generic term 'community' because in that history two stages have to be distinguished: the prenational and the national, with the peculiarity that many arguments and justifications conceived in the first were reiterated and applied in the second.

Plato, Aristoteles, Rousseau stated the problem primarily in terms of cohesion, consensus and possibilities of self-government; in the writings of Aristoteles, however, almost all the arguments that held sway during that phase were articulated in synthesis.¹⁰ Thus, awareness of the political facilities represented by the strict confines of the 'polis' (or the circumscription of the canton, in Rousseau) was accompanied by perception of the amount of resources that the area should contain if it were to achieve the much-desired 'autarky'; and insight was also gained into the domain of 'public order'. It was realized that interrelationships existed between territorial measurements and the possibilities of more methodical control over the population. And if capacity for control is one

⁶ Marshall Wolfe, *Report on a unified approach*, *op.cit.*, p. 6. Leslie Lipson wonders what is the most desirable and practicable size for a unit of government. Can a State be too small or too large to operate effectively? What is the allegiance that inspires in people within the same political limits a feeling of loyalty and community spirit? See Leslie Lipson, *Los grandes problemas de la política*, Mexico City, Limusa-Wiley, 1964, p. 343.

⁷ See D. Apter and H. Eckstein (ed.), *Comparative Politics*, The Free Press of Glencoe, 1964, p. 647.

⁸ See Dankart A. Rustow, *A World of Nations*, Washington D.C., The Brookings Institution, 1971, p. 247.

⁹ Lipson, *op. cit.*, p. 104, remarks that associations of human beings based on government and defence requirements and those deriving from links of affinity and cohesion, attributable as they are to two different motivations, do not necessarily coincide.

¹⁰ See *Politics*, book VII, Chapter IV.

of the hallmarks of any sound organization, it must be added that Aristoteles conceived the possibility of the national model as a type of spatial organization in cases where dimensions exceeded those thought to be fitting and reasonable for the traditional 'city of antiquity'.¹¹

The greatest city-State is not the largest or the most populous, said Aristoteles. This assertion, together with others, draws attention to the Stagirite's ability to arrive at the concept of magnitude or entity as distinct from mere physical 'size': the criteria whereby the one was differentiated from the other were the qualities of the inhabitants in terms of worth, intelligence and willingness to work hard, their level of integration or —as Aristoteles puts it— the efficiency with which they perform the tasks incumbent on them.¹²

When, two thousand years later, these conclusions were restated, it was from the primarily political angle of 'dimension' and 'régime' that they were considered. The possibility of a republic was assigned by Montesquieu to small communities, whereas he believed that those of medium size were more compatible with monarchy and very large ones with despotism. Rousseau, with regard to population size, maintained that the number of ruling figures decreases in proportion to the increase in the population, a ratio which as a proposition is perfectly correct provided it is assumed (we do not know of any analyses of the postulate) that there are fixed degrees of centralization or monism (very logical

¹¹ *Ibid.*

¹² *Ibid.* It is also worth while to point out that he noted the possibility of achievements which could offset disadvantages, in his remark that "the largest city is not the happiest". Cf. similar considerations elsewhere in his work.

from the point of view of Rousseau) and a given number of decision-makers which remains the same, irrespective of the size of the territory in which these decisions have to be implemented.¹³

With the passage of half a century the predominant markedly universalist illuminism and belief in natural law gave ground, and the topic of national size and of the advantages and drawbacks of small dimensions surged up again concurrently with the wave of nationalist movements in the early and mid-nineteenth century. Almost always, however, the balance-sheet of advantages and disadvantages was presented without reference to any specific time or place, a characteristic which was not avoided in a notably acute passage in Tocqueville's work¹⁴ and only partly in the somewhat ambiguous attitude to small nations adopted by the founders of marxism.¹⁵ Generally speaking, when the balance worked out in favour of limited national dimensions,

¹³ *L'Esprit des lois*, book VIII; *Du contrat social*, book III, chapter II.

¹⁴ Alexis de Tocqueville, *La Démocratie en Amérique* (English edition, Phillips Bradley, New York, 1945), vol. II.

¹⁵ Very well set forth in Marx-Engels, *Materiales para la historia de América Latina*, Buenos Aires, Pasado y Presente, 1972, introduction by Pedro Scarón, pp. 8-11. Interesting comments are also to be found in Edward Hallett-Carr, *The Bolshevik Revolution: 1917-1923*, Penguin Books, 1966. Predominant among the many and sometimes contradictory views expressed by Marx and Engels on national size is their admiration for large national units endowed with genuine potentialities in respect of development, market size, consistency, 'large-scale social production', etc., and their general contempt for small nations, which leads one to suppose that however heatedly they defended the cause of some that were labouring under the yoke of colonialism, they did so more from 'anticolonialism' than for any other reason.

there was – and still has been in our own time¹⁶ – a tendency to extrapolate unblushingly in its support the undeniable qualities of Athens or Florence or Weimar, i.e., of small prenatal centres, socially and culturally aristocratic, whose history had unfolded when the world was in the predevelopment stage and which were embedded in cultural areas whose continuity and kinship were substantial. With this kind of special pleading and a little imagination the case is easy to defend, at least for a not over-strict judgement.¹⁷

Much more insidious than these arguments on behalf of minimum or maximum size is the solid system of assumptions and associations on which their inspiration and even their strength of conviction is based. This body of suppositions – or so at least we think – is more than capable of effectively battering at any critical reflection on the national size claimed to be appropriate: a capacity that is enhanced by the shortage, the complexity, the non-comparability and the scant quantifiability of the empirical material accessible to a type of thinking which aims at following other paths.

To put it more plainly, a smaller space and a smaller population are asso-

¹⁶ A case in point is afforded by Mariano Picón Salas, "Las pequeñas naciones" (address delivered at the University of Puerto Rico), in *Europa-América*, Mexico City, Cuadernos Americanos, 1947, pp. 199-225.

¹⁷ It has been contended, for example, with respect to Athens, Florence and other centres in Italy and elsewhere, that small nations afford a life of more interest and intensity. This is obviously true enough, in the case of cities professing a great love of peace and of the universal values: a matter in which they have not much choice, if they are not capable of externally powerful ventures which represent possibilities of self-projection at the world level rather than, as might be alleged, a great deal of imitation and some degree of alienation, etc.

ciated (in the imagination, by intuition) with certain characteristics and certain qualities; and, correlatively, following upon the great European processes of national unification in the last century and their special reverberations and analogies in some of the American nations (the United States, Argentina), the exact replica of these positions came to exist in the shape of a sort of quasi-religious faith in the excellencies of maximum community dimensions: to add space to space and people to more people seemed the infallible method of increasing – with no possible room for a decline – power and wealth, liberty, happiness, culture.¹⁸

Although occasionally the space variable and the population variable join forces, it is essentially with larger or smaller areas of space that the following associations are built up: greater or lesser availabilities of material resources, of investment opportunities, of incentives to attract foreign interest and participation; diversification of production; difficulty of exerting social control, and, in particular, of preventing cases of social or local autonomy; existence of blockages in the channels of information; capacity for defence and even invulnerability against military, political or economic aggression from outside the area; seriousness of interregional tensions; capacity for retention of the population; a closed economy and difficulties in opening it up to the outside world.

In turn, it is principally with population size that greater or lesser social diversification and integration are

¹⁸This suggestion, deriving largely from the recently-achieved German 'Zollverein', is plain to be seen in the Río de la Plata controversy of the 1860s respecting the 'patria grande' and the 'patria chica', and particularly in the allegations of Juan Carlos Gómez.

associated, as well as dissension, uncontrollability and possibilities of disintegration; aptitude for proportional distribution of social costs; collective security and pride; volume of consumer demand; rigidity, inflexibility and difficulties in adapting to unexpected contingencies.¹⁹

Although nothing of the sort could be done here and now, each of these associations, after being checked and exemplified in many available statements of opinion, would be worth analysing in the light of the empirical evidence, through research on its socio-cultural, traditional, philosophical, and sometimes even religious origins.

3. Possible appraisal criteria

Thus there are diverse theoretical standpoints from which smallness of national size can be appraised. And, without aiming at an exhaustive classification, they may be presumed, until more accurate categories can be established, to be the following:

- (a) Criterion of radical irrelevance. Size is not a decisive or even an important variable, nor is it disadvantageous to be a small nation, or of certain benefit to be a large one;
- (b) Criterion of absolute advantages and disadvantages of size, the verdict being almost invariably in favour of large units (the 'great States' of the nineteenth century);
- (c) Criterion of the proportionality of variables in relation to each size, and analysis of the nations "constructed on a small scale" to which allusion will be made later on;
- (d) Criterion of compensatory advan-

¹⁹ For some of these associations see Tocqueville, *loc. cit.*

tages and disadvantages or 'classic approach', usually focused in the case of small nations on their spatial dimension or on the antithesis between the 'qualitative' (favourable to small size) and the 'quantitative' (favourable to large size); (e) Criterion of comparison between advantages and disadvantages bred of size, but only in relation to units in the same geographical areas and/or at the same levels of development;²⁰

(f) Criterion of the community as an entity based on an aggregation of weighted variables (territory, population, economic structure and potential, education, consumption, etc.);²¹

(g) Criterion of the futility of an immigrant and isolationist approach which disregards the continuities and discontinuities —abrupt or graduated— bordering upon the national frontiers,²² and does not concern itself with the possible application of regional amalgamation and integration policies, such as are feasible and common at the world level;²³

(h) Criterion which combines with any of the foregoing —from (b) to (f)— the

²⁰ Simon Kuznets, "Economic Growth of Small Nations", in Robinson, *The Economic Consequences of the Size of Nations*, *op. cit.*, p. 16.

²¹ Cf. Helio Jaguaribe, *Desarrollo económico y desarrollo político*, Buenos Aires, Editorial Eudeba, 1962, pp. 55-56. A significant effort in this direction, in our view, is Karl W. Deutsch's idea of 'national profiles', although a single indicator is not reached (see *The American Political Science Review*, 3-1960, vol. LIV, N° 1), in Roy C. Macridis and Bernard E. Brown (ed.), *Comparative Politics*, Illinois, The Dorsey Press, 1964, pp. 108-112.

²² Sventnilson, *op. cit.*, pp. 9-13.

²³ See the distinction made by Helio Jaguaribe between 'individual viability' and 'collective viability', in *Desarrollo económico*, *op. cit.*, pp. 54-56; and '*Los modelos políticos y el desarrollo nacional*', *op. cit.*, p. 89-90.

consideration of possible variables with strongly disjunctive values, that are capable of completely altering the course and ultimate destiny of a small nation.

In following up the foregoing approach, several of these criteria can be dismissed at the outset. This is the case, in our opinion, with the criterion of 'radical irrelevance', because of its facile scepticism and the fact that it clashes with a great deal of evidence; with that of 'absolute advantages and disadvantages', because of its similarly facile dogmatism, and likewise because it can manifestly be refuted by the testimony of history; with that of 'proportionality', on the grounds that there are decisive elements in the nation-State pattern which preclude major reductions of scale; with that of 'compensatory advantages and disadvantages' whose appraisal is unrelated to any real place or specific period, because of its 'angelism' and the ineradicable impressionism that underlies it; with that of the 'national entity' based on a number of weighted variables, because of its extreme—and perhaps insuperable—complexity; and with that of the 'futility of the approach' which does not simultaneously take into account the integration possibilities of each national area on the grounds that in the first place, such integration programmes are not always feasible over the short term, and, secondly, they are not always immediately and obviously favourable to their members. But far greater significance attaches to the evidence that the quality and destiny of such integration movements depend to a substantial extent on the conditions and characteristics of some of the parties to them, which can and indeed must be—at the least—analysed in general terms as a preliminary to any integration process.²⁴ (At all events, some of the conti-

nities and discontinuities and, in particular, those generated by the forces operating at supra-, infra-, or extra-State levels, such as big producer corporations, ideologico-political, social, religious, and other power houses, etc., cannot be by-passed by any approach which aims at a minimum of realism.) A few words may be added on the criterion of the 'variables with strongly disjunctive values' and their possible incidence. The examples adduced by a writer who has stressed their importance²⁵ are of distinctly unequal weight. The problem of intensive population pressure (El Salvador is usually cited as affected by this) does not seem to be of overriding significance. The existence of products in great demand, in particular those of the energy sector, does tend—the verdict is a commonplace—to have important implications,²⁶ which also means that any study of the small Latin American nations would have to tone down its conclusions in the case of Ecuador. The third special feature involved, according to Kuznets, in the economic and social development processes of Scandinavia, Switzerland, Australia and Canada transfers the problem—despite the pains taken with the supporting arguments—to unrealistic levels. It was because of their position in one of the segments

²⁴ See Institute of Latin American Studies, *Development Problems in Latin America (an analysis by the United Nations Economic Commission for Latin America)*, Austin and London, University of Texas Press, 1970, p. 141.

²⁵ Simon Kuznets, *op. cit.*, pp. 27-31.

²⁶ With respect to the consequences of the discovery of petroleum, see *Latin American Development and the International Economic Situation. Second Regional Appraisal of the International Development Strategy* (E/CEPAL/981), Vol. I, pp. 14-15.

into which the world was split by that dualization which between 1700 and 1900 demarcated areas of development and underdevelopment, centre and periphery, independence and interdependence, that the countries mentioned were able to overcome certain disadvantages of their small population and in the case of the first two —certainly not in that of the second pair! —²⁷ their limited national areas.

Accordingly, one criterion is left to be applied: that implying a comparative study of advantages and disadvantages as between nations in the same geographical area and/or at the same economic level.

In point of fact, attempts have already been made to formulate definitions of the category comprising 'very small underdeveloped countries',²⁸ conceptualizations of the 'conspicuously underdeveloped small Latin American nation' type,²⁹ and more or less impressionistic situational approaches relating to the whole group of nations with small

or medium spatial dimensions.³⁰ In addition, more systematic efforts have resulted in the formulation of more abstract categories of situations based on over two dozen indicators, which tend to identify one of these categories with the small Latin American nations as a group. It includes most of them, although some show a tendency to diverge from the norm in respect of what is today a fluctuating number of indicators.³¹

While these observations will duly be taken into account for the purposes that concern us here, we shall opt for the more economical assumption that the following considerations are focused upon the situation of small nations,

³⁰ Helio Jaguaribe singles out the small nations of Central America and the Caribbean, because of their geopolitical situation and because of the greater degree of dependency on the United States on the part of their ruling élites; Ecuador and Bolivia, on account of their insecure viability; Paraguay, because of its régime and the severe limitation of its resources; Uruguay, which is visibly approaching the end of its tether as regards the maintenance of national development. See "La dependencia y autonomía en América Latina", in H. Jaguaribe *et al.*, *La dependencia político-económica de América Latina*, Mexico City, Siglo XXI, 5th. edition, 1973, p. 52.

³¹ *Social change and social development policy in Latin America* (E/CN.12/826/Rev.1), United Nations publication, Sales No: E.70.II.G.3, p. 39, defines a 'type IV' identifiable *grosso modo* with some of the small Latin American nations. The position of a type IV country is 'low' with respect to sixteen indicators, 'medium-high' in relation to two and 'medium' for one. The authors maintain that only one or two Latin American countries approximate closely to this type but that others are in danger of becoming trapped in its 'low-level stagnation', particularly if their economics are highly specialized. The positions and special characteristics of Panama, Costa Rica and Uruguay are distinguished from those of the rest of the group.

²⁷ The reason for including such countries is to be found in the population ceiling of 20 million fixed by Simon Kuznets for medium-sized nations.

²⁸ See Helio Jaguaribe, *Desarrollo económico*, *op. cit.*, pp. 54-56; and *Los modelos políticos*, *op. cit.*, pp. 89-90.

²⁹ Marshall Wolfe, *Approaches to development*, *op. cit.*, pp. 157-159, maintains that within the whole set of small Latin American countries a more circumscribed group can be defined, characterized by a lower degree of urbanization, high rates of population growth, less progress along the road of polarized development, variable economic growth and, above all, dependency upon the lot of one or two products in the world market: *in toto*, less capacity to meet conventional development requirements. See also *Latin American Development and the International Economic Situation*, *op. cit.* pp. 13-46.

spatially and demographically definable as such (ceilings of 410 000 square kilometres and 6.1 million inhabitants in 1970),³² situated in the Latin American region of the underdeveloped and marginal world, and exhibiting sharp discontinuities with a generally hostile external environment, but also possibilities for zonal or regional integration or amalgamation movements, whether incipient or already under way.

4. Features of the 'small nations'

It is difficult, and theoretically perhaps impossible, to imagine any characteristic of a small nation which originates simply and solely in the condition of smallness, which is not in some way made relative, modified or inhibited by some other condition or conditions of a different sort. Obviously, however, the incidence of these latter is again not a question of all-or-nothing but of more-or-less, whence it may legitimately be deduced that there is a whole set of variables whose values and conformations make them favourable or unfavourable to the

³² The first of these ceilings somewhat exceeds the area of Paraguay, and the second is rather higher than the population of Ecuador in 1970. Thus they cover the six Central American republics, the Dominican Republic, Ecuador, Paraguay and Uruguay. A point worth stressing is that none of the remaining Latin American countries falls below either of these two ceilings. In line with the usual practice, we have excluded the non-Spanish-speaking communities of the northern zone of Latin America, and also Cuba, because of its special situation. The problem of size in the first group has been studied by William G. Demas in *The Economics of Development in Small Countries with Special Reference to the Caribbean*, Chapter II, "Underdevelopment and Self-sustained Growth in Small Countries", Montreal, McGill University Press, 1965.

needs of a small national unit, and whose importance will therefore be less dependent on levels, comparative criteria, traditional factors or 'special situations'. Clearly, 'less' does not imply an absolute negation, but it could feasibly be proved that in each case such determinants have to be very substantial in order to make any considerable difference to the plus-or-minus effects of size.

The following is a tentative list of those which seem to us most important. (a) Smallness of size or as an entity generally stands for fewer material and human resources at the disposal of the community, less diversification of these resources, and greater concentration of those which are really important. If—as is usually the case—there are clear comparative advantages attaching to the production of certain goods and at the same time resources are severely limited, this line of production will tend to absorb all the resources available and will leave a narrower margin for any other activities;³³ all this, of course, at a given level of technology, which endues that same concept of 'shortage of resources' with a historical character, even more 'historical' than are all the other concepts used in the discussion of the question.³⁴

(b) The shortage of resources and their concentration and specialization generates in turn the narrowness and inelasticity of the domestic market, and makes all possibilities of economic growth over-dependent upon the foreign market, which, as Kuznets says, is not a sound base for development.³⁵ It is open to

³³ Simon Kuznets, *op. cit.*, pp. 15-16.

³⁴ Helio Jaguaribe, *Desarrollo económico*, *op. cit.*, pp. 54-56; and *Los modelos políticos*, *op. cit.*, pp. 89-90.

³⁵ Simon Kuznets, *op. cit.*, p. 17; W. Demas, *op. cit.*, p. 91.

question 'from what point' this narrowness of the market has a really serious effect on a small nation's overall prospects and from what point it imposes, more specifically, a constraint on feasible industrial development. The thresholds usually established for a situation in which size has no effect are too high for any of the small nations of the Third World,³⁶ and the relative advantage of the greater unification of a small market³⁷ will be more than offset by the fact that any external investment to produce for it will be a less attractive proposition.³⁸

(c) Although there is not of course an optimum scale of magnitude for industrialization,³⁹ it is likewise true that for the development of any industry a small nation, with its shortage of resources and its narrow market, is too far removed from the highest point in the scale and may even sometimes be incapable of attaining the lowest.⁴⁰ In either case it has no chance of achieving increases in productivity, particularly those deriving from economies of scale.⁴¹ And low as

³⁶K. W. Deutsch maintains that market size has been shown to have little or no effect on economic growth, but this is on the basis of an assumed population of 20 million inhabitants. Only from that threshold upwards will the coefficient of correlation between market size and income growth be as low as 0.29. See *El nacionalismo y sus alternativas*, Buenos Aires, Editorial Paidós, 1971, p. 116.

³⁷W. G. Demas, *op. cit.*, p. 91.

³⁸Karl W. Deutsch, *op. cit.*, p. 52.

³⁹According to Simon Kuznets, *op. cit.*, p. 14, a population of 50 million is too small a market for some industries; for others one of five million may suffice.

⁴⁰In *Development Problems in Latin America: An Analysis by the United Nations Economic Commission for Latin America*, *op. cit.*, p. 137, it is pointed out that the smaller Latin American nations are lagging behind in the import substitution process.

⁴¹W. G. Demas, *op. cit.*, p. 9.

is the viability of industrial development, it may sink even farther, to such depths as to make industrialization almost inconceivable, at least as a development device.⁴² This paves the way for controversy on a subject that will not be tackled here for obvious reasons: whether an industrial system is an indispensable instrument of development, and whether specific achievements and sometimes quite spectacular symbols of economic independence—such as heavy industry and the machine-tools industry—are not liable to involve soaring costs, incentives to other branches of production which prove still-born, veritable brakes on the capital formation process,⁴³ and even obstacles to the formation of a fluid capital market, a primary essential in a small nation with scanty resources.⁴⁴

(d) The idea has also been propounded that no less onerous than industry on a constricted scale are certain services which might conceivably be provided by economies endowed with greater comparative advantages.⁴⁵ The argument, however, relates—and very weakly at that—to the quantum of resources available for different uses, since it is hard to see what favourable influence on development could be exerted by the provision of education (no less) entirely from abroad—even if there were not

⁴²See Marshall Wolfe, *Report on a unified approach*, *op. cit.*, p. 26.

⁴³Le Than Khoi, "El desarrollo pobre", in *Opinião*, N° 130, Rio de Janeiro, 29 April 1974, p. 10. Some of the arguments put forward by radical economists of the Third World are curiously close to those advanced by orthodox economists in central countries.

⁴⁴Helio Jaguaribe, *Desarrollo Económico*, *op. cit.*, pp. 54 *et seq.*; and W. G. Demas, *op. cit.*, p. 91.

⁴⁵Simon Kuznets, *op. cit.*, p. 24.

traditional and local reasons for rejecting such an idea—, or if the same thing happened with municipal construction (supposing that its small-scale character were not a universal phenomenon), or even with domestic service (if the costs of —daily?— transport were not so high. . .).

(e) The small size of the domestic market and the feebleness of the industrial development normally attainable are in their turn responsible for what may well be regarded as the maximum disadvantage of limited national size.⁴⁶ A higher degree of dependence on external trade flows entails not only the static condition in which that results, but also, worse still, instability and vulnerability to all the price upswings (for imports) and downturns (for exports) to which international trade is so inexorably subject. Obviously, with its less diversified or more concentrated export trade, a small community is bound to be much harder hit by price fluctuations and possible deteriorations of the terms of trade than one where exports and imports play only a marginal and balancing role.⁴⁷

(f) Something that can and must be individually mentioned, however much it is a corollary of the state of affairs just described, is the heavy impact that the balance-of-payments problem can make on the internal economic circuit. For it

⁴⁶ Svennilson, *op. cit.*, p. 24.

⁴⁷ See Demas, *op. cit.*, pp. 18-23; and Deutsch (*op. cit.*, p. 117), who maintains that in a country with 10 million inhabitants foreign trade represents 35 per cent of the gross national product, in one with 100 million, 15 per cent, and in one with 500 million, 5 per cent. Clearly, however, the situation becomes much easier when the nation possesses a product in great demand (such as gold or oil), but this is the exception rather than the rule.

will necessarily have very direct and uncontrollable effects on the internal supply of capital, on employment, on the monetary stability requisite for a sound investment process, and on other variables, all of which are highly pertinent to any economic development policy.

(g) It is open to question, on the other hand, whether smallness of national size affects in any specific way the level of technological know-how and practice which a community may have reached or whether its (highly probable) disadvantages in this field derive merely from the overall limitation of its resources. It seems reasonable, in our opinion, to suppose that for small nations there is no special time-lag in this respect, and that it is general backwardness which holds up the inflow of suitable technologies and means that output has to be exported on less advantageous terms.⁴⁸

(h) To close this list of directly economic variables, one that would seem, in contrast, easier to confirm and more important is the possibility of flexible manoeuvring, of skilful shifting of ground, which is within the reach of a small nation and derives from its very insignificance. Almost certainly, this insignificance may likewise have its drawbacks: the small nation—in so far as it lacks a degree of prestige which on the economic plane is not easy to acquire—is less capable of taking the initiative in amalgamation or integration move-

⁴⁸ Svennilson, *op. cit.*, p. 13.

⁴⁹ It may be supposed that under the influence of what have been called here associations and suggestions originating in size, the other potential members will perhaps suspect that it is the initiator of the movement who will gain most. Of course, the experience of LAFTA and others of the same kind could have settled the question.

ments,⁴⁹ in all probability its voice sounds more faintly than others in the unheeding or much-impertuned ears of the international agencies concerned with co-operation in development.⁵⁰ But being unimportant has its advantages and compensations. Such nations may find it easier to adapt to external pressures on a development process that is already launched, and may have better facilities and a more nimble capacity for meshing with the network or fitting into the interstices (depending on the image) of world trade, recapturing in the frequent upheavals something of what has been lost, and possessing aptitudes for this which are born of their skill in imparting flexibility to their own domestic trade structure.⁵¹

(i) It would seem that these essentially economic and commercial gifts of flexibility and adaptability could be made extensive to a broader concept of manageability comprising two possible currents: one, capacity of mobilization, which for the moment we shall leave aside; and the other, capacity for control. To estimate this, it must be assumed, one would say, that the flow of decisions is characterized by equal and average conditions of positiveness and of coherence, and that there are no unduly formidable physical obstacles and social gaps in the way of their implementation: in such circumstances, presumably, more complete control of space and population will be achieved at less cost and more thoroughly than in larger ambits. As early as in the prenational phase Aristoteles noted that too big a city could be easily infiltrated by foreigners, which

weakened the degree of control attainable.⁵² Even without such distinguished testimony, it is fairly obvious that the same capacity for repression or control—as has been strikingly demonstrated in a recent Latin American case—becomes relatively more effective when it is exerted over a numerically small population and within a space that has no very marked physical discontinuities. As can easily be seen, this possibility, like so many others, is a two-edged weapon, and, where success is achieved, efficacy is no guarantee whatever of the direction in which this control will be exercised. But, generally speaking, it must be pointed out and even emphasized that, as Deutsch notes, ‘nation-building’, including regulatory capacity, may perhaps have to be ‘nation-limiting’,⁵³ a lesson in humility which is demonstrated positively in the older European nations and negatively in the Chinese Empire,⁵⁴ as well as in Rome, although somewhat more ambiguously there than in the preceding instances.⁵⁵ To summarize so important a topic, its salient aspect may be identified as unequal distribution of the scope and effectiveness of the means of coercion and persuasion:⁵⁶ national

⁵² *Politics*, book VI, chapter IV.

⁵³ Karl W. Deutsch and William J. Folz (ed.), *Nation-Building*, Chicago and New York, Aldine-Atherton Press, 1963, pp. IX-X.

⁵⁴ Etienne Balazs, in *Civilización china y burocracia*, Buenos Aires, Editorial Sur, 1966, p. 29-57, draws attention to the case of an undifferentiated sub-continent, little suited to the formation of nation-States.

⁵⁵ León Homo, in *El Imperio Romano*, Madrid, Espasa-Calpe, 1962, p. 238, points out the significance of the ‘diocese’, between the ‘prefecture’, which was too large, and the ‘province’, which was too small, as an endeavour to represent that living ‘regional element’ which was always lacking in the Roman Empire.

⁵⁰ Marshall Wolfe, *Report on a unified approach*, *op. cit.*, p. 8.

⁵¹ Simon Kuznets, *op. cit.*, pp. 30-31.

size is probably the variable which has most to do with this. Furthermore, within a very limited space it is more likely (although there are examples to the contrary, such as that of Nicaragua and the rivalry between León and Managua) that tensions between a centre and certain local nuclei will be relatively weaker than they have usually been in more extensive national areas.

(j) Tocqueville remarked on the all-seeing eye of small communities.⁵⁷ Obviously, in view of what has already been said, highly effective regulatory or repressive control is achieved, among other means, by way of an extremely free inflow of information from the society to the centre of power, and even a reflux from this centre to the society at large. This may be of great importance in relation to planning practices, although it is by no means a guarantee of their success.

(k) A high level of achievement in internal control has its reverse side—still in the case of developing societies—in that same acute vulnerability to the incidence of external action which has already been noted from the specifically economic standpoint. How far this vulnerability may be so great as to permit of a formal act of domination is a point that can be cleared up only by separately examining the many planes on which

dominion can be exercised. While the general likelihood of such a thing may be asserted on the basis of certain simplifications, the distinction should be drawn that in a world like that of today the possibility of annexation through military aggression and enforcement is not much greater for small nations than for those of medium or even large size, being, as it is, hedged about by that *statu quo* of respect for the nominal forms of sovereignty which is one of the conditions of world peace.⁵⁸ But there are other forms of domination that are much harder to exercise and in face of which a small nation is more defenceless than national units of different dimensions would be. This applies particularly to the phenomena of cultural and informational influences—not to say bombardments—⁵⁹ and to the very capacity for adopting authentically endogenerated decisions, that is, decisions in which (juridical) 'sovereignty', in terms of real power, is equivalent to something more than the mere necessity of formal authorization (the requirement that 'it must go through something') for options substantially determined on outside the national boundaries.

There are also conditions which the citizens of small Latin American nations are in a position to know all too well; they occur especially when such nations are wedged in between other larger units, and that, above all, in strict ecological and socio-cultural continuity. In enclaves

⁵⁶ See Karl W. Deutsch, *Nationalism and social communication*, *op. cit.*, p. 177; and Karl W. Deutsch, "Social mobilization and political development", in Roy C. Macridis and Bernard E. Brown, *Comparative Politics*, *op. cit.*, p. 648, where he notes that social mobilization is apt to extend the size of States beyond their original areas, and that although this enlargement is the result of mobilization, it also causes mobilization to be counteracted and inhibited by sectional concerns as size increases.

⁵⁷ Tocqueville, *op. cit.*

⁵⁸ Karl W. Deutsch, *Nationalism and social communication*, *op. cit.*, p. 79, contends that although the smaller States are ill-equipped for defence an attack against any of them by one of the major powers would entail conflict with the others, with all the ensuing undesirable and unforeseeable consequences.

⁵⁹ See Marshall Wolfe, *Report on a unified approach*, *op. cit.*, p. 7.

of this type the small community may find its physical and social space daily eroded by abusive encroachments which will hardly necessitate formal State decisions, and which include a virtually irrepressible contraband trade, the infringement of the country's airspace, and many other similar practices.

In addition, this vulnerability to external influences ultimately affects the internal capacity for control; but, however much it does so, the two characteristics in conjunction form a constellation that bodes little good for the effectiveness of the development styles that a small nation may be in a position to choose or maintain.

(l) James Bryce, a British government scientist, on the occasion of a visit to Uruguay in 1910 spoke of "nations constructed on a small scale".⁶⁰ But it is often their ill-luck that costs exist which are inseparable from the very existence of a government and a central administration (for example, expenditure on the foreign service) that have to be met up to a certain threshold irrespective of the 'scale' on which the nation 'is constructed', and that it must therefore cover or not be a nation-State. As an old axiom has it, large units are very costly and small ones just as much so, if the costs are compared with the much more limited resources out of which they have to be defrayed. This is borne out, despite all attenuating arguments, by defence expenditure;⁶¹ in the last few decades, however, it seems to have become much more evident in the case of scientific and technological equipment whose minimum cost is far beyond the possibilities

of a small and usually heavily overburdened national budget.

(m) But the costs of small national size are not only economic and material. Reference was made at the outset to 'human resources', although nothing further has been said of them. If we are to consider them now, we may begin by postulating that there is a relationship, difficult to establish and still harder to quantify, between the volume of a society's total resources and the differentiation of roles which this imposes and at the same time renders viable; and another relationship, more pervasive and generic, between the individual destiny and the size of the community.⁶² Tocqueville contrasts the great centres where the spirit glows, where thought finds greater stimulus and ideas circulate more freely, where there is more inventiveness and less routine, with a whole collection of others where in default of all this, there is so little room for ambition.⁶³ To put it in less imaginative and impressionistic fashion, the complexion of many of the most valuable intellectual activities and vocations is largely dependent on participation in an intellectual community which needs to be increasingly broad: that world community of advanced knowledge to which a society of relatively considerable magnitude, even if not fully developed, can gain access with less difficulty than another of limited size; or at least, can approach it with lower relative costs and with economies

⁶⁰ See *South America: Observations and Impressions*, New York, MacMillan, 1917, p. 351.

⁶¹ Simon Kuznets, *op. cit.*, p. 26.

⁶² A Bolivian writer, René Zavaleta Mercado, says that every man is up to a point the size of his country and . . . nationality is an element in the ego . . . ; the individual ego can attain self-fulfilment only through the national ego. See *Bolivia: Estado nacional o pueblo de pastores*, La Paz, 1963, p. 30.

⁶³ Tocqueville, *op. cit.*

⁶⁴ Simon Kuznets, *op. cit.*, p. 25.

of scale from which a small unit is debarred.⁶⁴

(n) Nevertheless, it is to be expected that even with the high costs referred to, given an adequate social level in their favour skills are produced which are highly appreciated everywhere: factors that will be reinforced by the existence of natural abilities whose quality does not depend on training or where training is of little importance in comparison with the brilliance of the inborn gift.⁶⁵ Much more commonly still, a great many skills may be produced which are not outstanding but are above average and even distinctly high. Thus in either of these cases 'products' are turned out "for which there is no societal need, or products which the society cannot afford".⁶⁶ Accordingly, seeing no future ahead or restricted in the pursuit of vocations which are too specialized for the scant differentiation of roles that the *milieu* allows, the most inquiring-minded and capable elements in the community will be led into mass emigration. It has often been pointed out that by this means the recipient countries greatly lighten the cost of training the skills they need, while the expellent country squanders its resources. From the standpoint of development models and styles, on the other hand, the effect of the phenomenon may be described as generically ambiguous, inasmuch as, if the brain drain enhances the security of an authoritarian and constrictive project by relieving it of

what would certainly be elements of dissidence, on the other hand the society is deprived of capital in the shape of skills which at some time, even if such a style prevails, it will probably need and will therefore have to seek at much higher costs.

(o) A wide differentiation of roles, however, is not the only possible means of achieving an integration whose outcome will be a very strong sense of identity: this may also result from links which are not forged by complementarity. A more than average cohesion or homogeneity may be diagnosed as in the nature if not as the very essence of smallness of national size.⁶⁷ From Plato to Rousseau—it is worth while to recall—this characteristic was a key element in the preference shown for small size in prenational communities. The objective implicit in all the theses propounded during that phase is the existence of common values, beliefs and sentiments—even of that 'intimacy' which was guaranteed by the classical 'polis', and the loss of which, it has been said, was the supreme political problem of the expanded Rome; even, indeed of that 'concord' to whose striking etymological root attention has been called by Bertrand de Jouvenel.⁶⁸ These would make feasible, in one way or another, the materialization of the ideal of self-government and even the simple and straightforward forms of 'direct democracy'. Conversely, assuming that excellence in this particular respect is one of the requisites for a stable political system, it has been argued that if a political system cannot be extended for an indefinite period of time, the

⁶⁵ A case in point is that of exceptional ability in sport, for which there is a world market in which the institutions of small under-developed nations cannot possibly compete. (After all, sport is a highly important economic and social phenomenon.)

⁶⁶ Marshall Wolfe, *Report on a unified approach*, *op. cit.*, p. 31.

⁶⁷ W.G. Demas, *op. cit.*, p. 91.

⁶⁸ See Sheldon S. Wolin, *Politics and Vision*, Boston, Little, Brown & Co., 1960, p. 72.

reason is precisely that it is incapable of winning, likewise for an indefinite period, solid and wholehearted support; therein lies the difference between the political system and the economic system, since the latter can be indefinitely extended because it is based on a productivity which theoretically allows of unlimited growth.⁶⁹ In this way cohesion and consensus are linked up with the theme of small local and national units as 'cradles of liberty', a point already touched on in passing; in terms of the development problems that are of concern here, there seems to be no question that in such a political and social climate it is easier to secure the approval of large sectors of the population for any style which needs to rely on popular support. This applies not only at the level of the indispensable changes and the shareable objectives, but also, in particular, at that of the inevitable sacrifices which the project would entail and the groups and interests that would have to bear the brunt of them. All this would likewise involve a considerable dispersion and decentralization of planning and decision-making mechanisms, which, although perhaps their coherence would not be strengthened, might find compensation for this loss in terms of the support and contributions in which it would tend to be reflected.

The foregoing observations of course imply no opinion on the content of the stages and achievements that a small nation may attain in the adventure of development, a subject on which it seems too hazardous to generalize outside a very precise context.⁷⁰ But even in full awareness of the risk of idealization that such a supposition may entail,

⁶⁹ See Hanna Arendt, *Imperialism*, New York, Harcourt Brace, 1968, p. 6.

it can be assumed that given specific climates of cohesion and identification extending over very broad social sectors (including, of course, the leading political and social bloc), in this modernized 'Gemeinschaft', in this well-integrated 'team', which the small nation would thus become, the innate disadvantages of the small unit might be balanced by a healthy compensatory pride based on the very quality and excellence of such a state. What is more, it might find expression in a capacity for invention and social initiative that could be exercised — as pointed out by Kuznets, with whom we are in agreement here — not only in modifying a country's domestic institutions but also in international economic relations (as the history of the European Common Market itself would appear to show).⁷¹ For cohesion, concord, a genuine sense of community would not imply *per se* an introversion which, as has been remarked, may affect large communities more than small ones.⁷²

(p) With respect to mobilization of the population, by which is meant a basically spontaneous activation with a minimum of compulsion, the course it takes in the small national unit may produce effects and encounter stumbling-blocks originating from one and the same cause. In other words, it can hardly be denied that present-day instances of large-scale popular mobilization occur in response to a powerful ideological stimulus, however much that stimulus may be invested and integrated with nationalist feelings and with traditions of fighting for the com-

⁷⁰ See comments on Simon Kuznets' ideas respecting the cases of Scandinavia, Switzerland, etc.

⁷¹ Simon Kuznets, *op. cit.*, pp. 28-30.

⁷² Karl W. Deutsch, *El Nacionalismo y sus alternativas*, *op. cit.*, p. 117.

mon freedom. What certainly can be affirmed is that the incentives behind this type of mobilization are not specifically and especially 'patriotic' in the traditional acceptance of the term, and that it is the ideological spur and amalgam that sets such movements afoot and seals their style with the formal 'universality' of ideologies. This means, among other implications, that the promoters of mobilization are not usually confined to the national *cadres* and very seldom coincide with them. It is readily understandable that such a situation may give rise to many conflicts of cross-loyalties which, at least from the standpoint of the kind of mobilization appropriate to the development style of a small country, cannot fail to have some effects that are dysfunctional for the nation's interests. The problem may even become crucial in the case of a continent like America where the factors of group identification spill over State boundaries so manifestly and with so much ease.⁷³

Nor is this all. In a world virtually unified at so many levels, there is apparently still a specific relation between spatial ambits and any historical enterprise capable of inspiring those involved in it with a dynamic sense of participation in a universal process in which the stake are no longer held by only a few leading nations. If the major territorial units could once call that relationship to life,⁷⁴ it is doubtful whether the same thing may ever happen today, but even

more doubtful whether if it should happen it would do so in the small nations.

(q) All this poses special problems for the establishment of the representative formula through which any style must express, justify and defend itself. Tocqueville maintained that in small nations ambition, tempered by weakness, spontaneously opts for motives of internal welfare as against those of glory.⁷⁵ But that used to occur in the pre-ideological and pre-mobilization stage of social development and of the still more special manipulation of the inferiority complexes which in disadvantaged communities usually prevail over any form of narcissism. If in addition to this fact it is borne in mind that grave sacrifices may have to be undertaken—and the poorer the levels at which they are imposed, the graver they are—in order to attain tangible development targets, it will be seen to be highly likely (and indeed more than likely) that preference will be shown for missionary and transpersonalist ideologies which tend to defer the humanistic objectives of common and individual wellbeing in favour of rather futile goals of national pride and self-preservation. But this is not the place to dwell upon the conflicts that may arise between the current goals and ideologies of what has been called the 'sacro-collective' type,⁷⁶ and others more in keeping with the economic behaviour pattern that it is desired to promote.

⁷³ See Marshall Wolfe, *El desarrollo esquivo*, Mexico City, Fondo de Cultura Económica, 1976. The relevant passage appears in English in a chapter published as a separate (mimeographed) text, under the title of "Social and political structures; their bearing upon the practicability and scope of a unified approach to development policy", CEPAL, February 1972, p. 30.

⁷⁴ Tocqueville, *op. cit.*, maintains that lust for power and love of glory are greater in large than in small nations; in the small ones ambitions and desires would seem to be more limited.

⁷⁵ *Ibid.*, *op. cit.*

⁷⁶ David Apter, in *The Politics of Modernization*, and *passim*.

(r) In the small nations where this type of ideology becomes at once more coherent and more explosive, it is common for the armed forces to influence, in greater or lesser degree, the basic decisions of a political system. All that need concern us here is to underline a constant observable in almost all political processes in Latin America, because of the special relevance of the way in which in small nations the subsystem of coercion will react to the prevalence of the ideologies referred to: an attempt will be made to offset the slightly perfunctory significance of the armed forces in a peaceful continent by adopting a course which in the larger nations of Latin America (for example, Brazil or Peru), where the armed forces have really fulfilled national integration functions, may not be so necessary.

5. *Small nations and development*

Now that the variables which in the case of small national units may affect development and its possible styles have been singled out, it would be worth while to use them in various exercises.

One of these can be provisionally shelved: namely, an endeavour to deduce styles and models from the characteristics of the small Latin American nations. Its exclusion is due—pending a convincing rebuttal—to our belief that images, goals, power structures, are the really decisive elements in the determination of styles; and this also means that style options are formulated prior to or at most correlatively with any considerations relating to context, viability and resources, which in any case lend themselves readily to adjustment, although not to the adoption of decisions.

A realistic exercise, on the other hand, is an attempt to pick out which

features of a small Latin American nation—understood at the highest feasible and reasonable level of abstraction—facilitate or hamper, in terms of context and resources, any type of development. And let us add that if “any type of development” is considered, these variables that infallibly have either favourable or unfavourable repercussions will not be very numerous; but presumably, in any event, however great the diversity of styles may be, a very meagre quantum of available resources, an extremely narrow national market or an acute vulnerability to foreign trade will be capable of affecting any development that is something more than a mere label.

Finally, another practicable task, which will be attempted here in relation to a single style, is a review of the small-nation characteristics that may affect any one of the styles identifiable.

The first examination we have set ourselves to undertake can be brief, especially if we refer to the ideas expressed above in each of the eighteen paragraphs (a) to (r).

All the strictly economic aspects covered in paragraphs (a) to (g) (market size, resources, vulnerability to foreign trade, importance of the balance of payments, etc.) appear as unfavourable. Unfavourable too is the low level of autonomy on which a small nation can count for the preservation of the area of sovereign decisions and for the most advantageous application of the resources resulting from them (k). Under the same head may be included the higher relative costs deriving from the existence of the State machinery, of a public administration, of a system of national defence (l). Identical in nature are the poorer chances of social, cultural and vocational diversification and the

fact that whatever is achieved in that direction indirectly results in a considerable brain drain (m) and (n). Lastly, mobilization conditions are also adverse in respect of the necessary incentives and the counter-loyalties which may have obstructive effects (p).

In contrast, as a general rule, the greater inconspicuousness and the flexible adaptability which were pointed out as counterbalancing the shortage of resources will be beneficial elements (h). So also will the easier manageability and better internal control of behaviour patterns and application of resources which smallness of national size implies (i) and (j), as well as its other by no means imaginary implication of capacities for cohesion, support, fluidity and inventiveness in decision-making, mobilization and other lines of conduct.

Lastly, as we have already demonstrated, a high degree of ambiguity attaches to the function of an assuredly inevitable 'national ideology' as well as to that of the forces of coercion (q) and (r).

6. *The small nation and the 'constrictive' style of development*

As a test of what we identified as a second feasible task let us see what possibilities and obstructions a small national framework offers for a 'constrictive' style of development.⁷⁷

⁷⁷ Latin American development styles can be divided into four basic types which I have termed 'constrictive', 'integrative', 'harmonizing' and 'restructuring'. The 'constrictive' style is similar to that called by Graciarena 'modern élitist'. See Jorge Graciarena, "Types of income concentration and political styles in Latin America", *CEPAL Review*, N° 2, second half of 1976, United Nations publication, Sales N°: E.77.II.G.2, pp. 203 *et seq.*

It would seem obvious, for a start, that an extreme policy of productivity at any cost will not survive very long, at least in the quantitative terms that are usually worth while, if the set-up is one of unavoidable shortage and underdiversification of resources. Such a situation may make it unrealistic to follow similar models adopted in *milieus* better fitted for them; and this lack of realism may produce a wide range of effects (adjustments, substitutions, a search for external or internal scapegoats, and even persistent integration efforts).

Meagre resources and a narrow market may also offer little to attract mass inflows of foreign private investment, which, without substantial incentives, might well find the future outlook daunting if the international image of the development style were very sombre and the existing level of repression very high. All this would tend to carry weight, unless there were specific possibilities of the area's integration with others that held out better promises; or again, unless certain special situations of upheaval and insecurity —which should not be considered here— were to arise in neighbouring nations, creating circumstances which, at least in hard times, are liable to transform a small and well-controlled area into a haven of no-loss-of-profit, or at least of no-consequential-damages, to adapt the terms of civil law. Save in these two exceptional eventualities, it is unlikely that the most generous legislation on investment of foreign capital will accomplish more than an improvement of the juridical and financial status of foreign enterprises established in the country, which will thus obtain unlooked-for circumstantial profits. Another point to add is that if the production effort is concentrated, as is highly probable, on exports and on the improvement of the

balance of payments, the style will be rendered highly vulnerable to two such uncertain variables as the size of the domestic market and the nature of the industrialization process. Furthermore, if an attempt is made to provide an initial stimulus to industrialization of the type tried out elsewhere, the idle capacity required for immediate activation will almost certainly be lacking in the area. Emphasis on export activities and on the subordinate position of consumption may also come to signify a process of re-establishment of 'enclaves' capable of generating sharp differences between the privileged sectors and the rest, with the corresponding social repercussions.

All the foregoing considerations, except for the proviso relating to foreign capital prospects, assume the small nation to exist in a vacuum. Probably, however, its aim is rather to operate as a 'model adscriptive' to another of larger size, especially in such fields as the provision of raw materials and redundant manpower and even the acquisition of energy, industrial products and more appropriate and cheaper technology than could be purchased elsewhere.

The constrictive style, like any other, will have to cope with the fact that the costs of public administration are proportionally higher for a small nation, but in all likelihood in a climate of firm repression of demand such outlays—except for expenditure on security, which could always tend to increase in both absolute and relative terms—may, with inflation playing its part, be substantially restricted.

Above the average, and even maximum, will be the potential for control and inflow of information common to small areas, and so will, in particular, the capacity for manipulation that an authoritarian system can attain in the external

strategy of a small community. This is true both at the economic level—where these possibilities may feasibly be realized—and in the political field. In the latter, however, there may conceivably be much less room for manoeuvre, at any rate during an initial stage and until the time has come to move on to more pragmatic and less 'committed' points of view; which likewise means that during that first stage the inflexibility of political management may be highly prejudicial to the desired flexibility of economic management.

With regard to the chances of securing able and active support from the population and of creatively utilizing the latent potential for cohesion and inventiveness which may be primarily characteristic of small units, it may reasonably be supposed that the normally compulsive nature of the style and the very line it takes in social and ideological respects are not calculated to win the allegiance of those age groups and sectors of activity (youth, intelligentsia, technicians) which are more inclined to give unstinted backing to an alternative orientation of a more consensual and harmonizing character. However, the style does not call for much mobilization, but rather the contrary, a fact which tends to cancel out the adverse implications of the phenomenon; and, moreover, the latent dissension represented by external and conflictive loyalties (ideological, universal, continental) can perhaps be repressed at little—or at least little immediate—cost.

Within this general picture of lack of mobilization and scant recourse to innovative possibilities, the fact that there is less differentiation of roles in small countries will also be beneficial to a conservative style, especially as long and in so far as this low degree of differentia-

tion is reflected psychosocially in a range of more modest, conformable and routine aspirations. For those that do not merit these epithets, emigration will be an effective expedient that may only become dysfunctional when it drains the reserves and decimates the cadres of the most indispensable technical capacity; and also –over the long term– when in addition to the cultural devastation that repression involves the average intellectual level of the community has irretrievably deteriorated. But lucidity, a high standard of information and unremitting self-determination on the part of the citizenry are not among the goals of the constrictive style, and the effects alluded to generally operate at a leisurely pace; the channels of communication are slow to report them, and the most alarming messages either reach people who are not in a position to exert influence or even to obtain a hearing or, if they come to the hands of those who are, will certainly be decoded in different ways.

The constrictive style also requires less capacity than any of the other alternatives for autonomous decision-making without reference to the powers that happen to be in the ascendant in the area, which means that external risks are greatly mitigated; and in everything that does not come under this head, i.e., hostility on the part of international public opinion, dangers latent in this, etc., the course usually tried will be that

of seeking international associations with other States whose attitude is similar. Such associations, besides still further blackening the external image of the system, may be hopelessly symbolical and represent very slight material advantages.

Let us take note of two other probable traits. In small, peaceful nations, where accordingly it may be assumed that for many generations the forces of coercion have not waged international wars or –for obvious reasons of size– undertaken tasks of physical and social integration that others have performed, they will tend to lay persistent emphasis on their symbolical value as custodians of a decidedly rigid social order and of a 'life style' and a national entity virtually inseparable from it. This claim will be highly consistent with the 'sacro-collective' character with which –as we said– the inevitable 'national doctrine' tends to be invested, and a substantial affinity will even be perceptible between that doctrine and the sectoral traditions and values of the armed forces that so strongly influence the formal structure of the subsystem of coercion. Nevertheless, this ideological bias may come into head-on collision with the secular-libertarian values implicit in a neocapitalist economic model, so that the two may do each other mutual harm, or, as is even more likely, may spoil their chances of being taken very seriously.

The deficit in urban services: a structural limitation?

*Francisco Barreto and
Roy T. Gilbert**

The authors analyse the causes of the deficit in urban services in Brazil and maintain that they have their roots in the complex combination of an inappropriate and insufficient supply and a demand seriously affected by the economic crisis. On the one hand, they underline the fact that the structure of supply is based on technological and economic patterns unsuited to the population's needs and possibilities. Not only are technologies adopted which are proper to the developed countries, and which in the real conditions prevailing in Brazil prove too complex, inflexible and exclusive, but the generation of supply is guided by the criterion —appropriate to private enterprise— which assesses the value of investment by its profitability. On the other hand, they point out that the critical economic situation through which Brazil is passing has had a disturbing effect on the capacity for payment of the low-income groups, so that their needs in respect of services cannot be translated into real demand. To this profound inconsistency between supply, real demand and basic needs are added the financial problems of the municipal authorities and the difficulties they encounter in undertaking programmed action.

Accordingly, the authors suggest that the only way to cope with the inconsistency is by means of a substantial change in the guiding principles by which the supply of services is determined, in conjunction with a redistribution policy that will increase the majority of the population's capacity for payment

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Introduction

Brazil is at present passing through a stage of explosive urban development, and the rapid growth of the urban population entails a sharp increase in the infrastructure needed to service it. According to the figures given in the Second National Development Plan, the population will increase by approximately 25 million during the present decade, and suitable conditions will have to be created to ensure that the supply of urban services grows at a similar rate. Thus, services such as water supply, sewerage and refuse disposal, energy, transport, public health and hospital services, education, recreation, sports, etc., will all be among the basic infrastructural requirements.

This prospect becomes all the more serious when one considers that at the present time about 72.6 per cent of Brazilian homes are without drinking water, and only 12.1 per cent are connected to a main sewerage system. The deficit in these services graphically exemplifies the existing imbalance, which vitally affects the quality of life of city-dwellers in Brazil, particularly at the lower income levels.

Over and above this deficit, there has been a relative stagnation in the supply of these services, and indeed in the country's principal centres an actual decline, as a result of the high rate of urban growth.

In the light of these statements, an attempt is made in the present paper to describe the main aspects of the structural crisis corresponding to the nature of this deficit of urban services. The situation will be examined from two specific standpoints: first, the generation of supply, by way of an account of the process and of the patterns determining it, and next the formation and manifes-

tation of demand in the urban environment, the present character of which will be analysed.

In these two main areas some theoretical considerations will be put forward, followed by a review of the actual situation aimed at bringing into focus

the real nature of the crises described.

After these preliminary observations on the fundamentals of the study, the following sections will set forth the main hypotheses regarding the causes of the prevailing imbalance between supply and demand in the urban infrastructure.

A. Supply

1. *The generation of supply: the entrepreneurial approach*

One of the criteria most widely followed at present in the public sector, as regards the supply of urban facilities and services, is the application of the principle of profitability to public investment so as to ensure returns on the capital invested. Its most usual justification is the claim that the supply of urban services is part of the general production process and should therefore necessarily involve a constant feedback in terms of capital invested.

This criterion was adopted as a result of observing the practices followed by the industrial countries and their experience in the installation of urban services. In actual fact, the principle of seeking the maximum financial yield on investment came to prevail in the majority of industrial countries as the natural consequence of the intensive industrialization process which was then taking place.

Accordingly, the installation of urban facilities, effected in line with entrepreneurial practice, was subject to the internal laws of the market and therefore to keen economic and technological competition; thus, it met certain

economic and financial prerequisites. The development of urban services not only accompanied the industrialization process but also received from it the financial and technological impulse needed.

In this context, the principle of the maximization of profit, which was perfectly appropriate for private investment, was subsequently applied in the public sector, in order to avoid the dissipation of scarce financial resources on projects not considered to be economically viable.

More recently, analysis of the cost-benefit relation has broadened the concept of profit, which in the case of public investment has now come to be known as the 'social return'. Nevertheless, even though this so-called 'social' aspect has been introduced, it is always presupposed that factors exist which could increase the national product through the reduction of 'social costs'. This type of analysis, therefore, has merely broadened the bases of the entrepreneurial approach, without changing its real nature.

Moreover, although this broadening of the approach in question led to the achievement of a high level of efficiency

in the industrial countries, it is difficult to imagine how the same thing could happen in Brazil in the conditions at present characterizing the internal economic structure.

The reasons for this discrepancy stem basically from the structural and historical differences between the industrial countries' processes of industrialization and urban growth and those currently taking place in the developing countries.

The first of these differences relates to the high opportunity cost of the provision of urban services in Brazil at the present stage. The industrial countries have at their disposal infrastructures inherited from the past, but this is not so in the developing countries. In these latter, the cost of making good the lack of urban services would impose a great sacrifice on the present population, whereas essentially the benefits would be felt only by generations to come. In the industrial countries, however, it is the present generation that is reaping the benefit.

Another difference lies in the socio-economic patterns (income and consumption structures, social strata, cultural values, etc.), which are extremely diverse in the countries lacking urban infrastructure, whereas they are relatively homogeneous in the industrial countries.

More specifically, the non-industrial countries are lacking in indigenous technologies, and when they have them they do not make use of them. Take, for example, the case of *taipa*,¹ a traditional

¹ *Taipa*: a building material for walls made of clay, which may also contain lime and sand, mixed with pieces of wood. It is noteworthy that this technique was used in buildings of the colonial epoch in Brazil (18th century) which are still standing today.

building material which is used particularly in the north-east of Brazil but which has not been officially approved by the bodies concerned with low-cost housing. In contrast, foreign techniques are introduced which often prove unsuited to local conditions from the economic and/or ecological standpoint.

Finally, attention should be drawn to the disparity between the different groups of countries in respect of a basic feature: their income structure. In the non-industrial countries the low level of income of the majority of the population creates a widespread incapacity to pay for the services they need, and from the entrepreneurial point of view this in its turn provides a justification for the lack of supply.

Consequently, as the private sector plays only a small part in the provision of urban services in these countries, the responsibility for supply falls mainly on the public sector.

Thus the adoption of attitudes and values based on socio-economic and technical patterns foreign to Brazilian conditions is likely to aggravate still further the causes of a crisis in the supply of urban services which is already almost beyond remedy. The degree of compatibility between the entrepreneurial approach and the provision of urban services therefore depends to a great extent on the country's economic and social structure.

2. *Imitation of socio-economic and technical patterns*

The imitation of socio-economic and technical patterns is a constant factor in the creation of the supply of urban facilities. It is evident, from the type of construction and the forms of urban services considered necessary (e.g., the

priority given to motor-cars through the building of urban road networks), that the patterns generally adopted are imported and are in keeping with a more homogeneous type of demand such as exists in industrial countries. It is therefore clear that the kind of supply of urban services generated by the application of entrepreneurial criteria derives from patterns incompatible with local conditions, and this almost always leads to situations of crisis, on the demand side because of the population's inability to pay, and because of the limitations of local finance in the case of supply.

It can be seen from this that the current process of development and modernization of urban services bears witness to the attempt to achieve, qualitatively and quantitatively, the same patterns as are found in the industrial countries, as in the case, for example, of the familiar adaptation of cities to the motor-car by means of heavy investment in road infrastructure such as viaducts, tunnels, etc.

On the other hand, the importance of indigenous technology, as reflected, for example, in the case of improvised housing like that of the *favelas* in the big cities, is ignored. In these communities collective technical solutions are devised, such as the use of makeshift building materials, the strategic location of water supplies, even independent systems of refuse collection, and finally, the planned organization of the community on the basis of the self-management which these solutions imply. Although born of difficult conditions, these technologies should be assessed with a view to their possible incorporation in the official supply of the urban services of which they already form an important, albeit unofficial, part.

Examination of the technological patterns used at present in the supply of urban services reveals that they constitute a discriminatory factor in themselves and that they inevitably confine within very precise limits the scope of the resulting supply. In other words, it is hard to see how the supply can meet the needs of the low-income population, if from the very start the patterns conditioning it are, by their technological nature, rigid and exclusive.

Moreover, the adoption of complex techniques implies the need for equally complex programming; and what is meant here by programming is the capacity of the local authorities to plan their investment with a view to carrying out a definite work programme. Furthermore, since programming involves intensive survey work in order to ascertain local needs and thus be able to provide an effective response to popular demand, it is an essential stage in the provision of public services. The type of programming which employs information obtained only from the upper strata of society, without adequate technical backing or empirical verification, is therefore of dubious worth.

Another point to note is that scarcely any local personnel technically capable of programming the supply of urban services is available. As a general rule, the services which possess a better planning infrastructure are those which depend on the allocation of external resources and require the incorporation of operational skills.

At the present time, the majority of municipal authorities in Brazil are without the minimum information needed for correct programming. In particular, there is a lack of work records containing information on the projects

executed and the order of priority of those still pending. Availability of such records would be a significant aid to understanding not only how best to carry out the work in hand but also how to plan better alternatives.

It may be added in conclusion that while in certain cases, because of the lack of facilities, programming may be a stumbling-block to the harmonious development of supply and demand, in others (assuming a given installed capacity) it can have an adverse effect on the already limited municipal funds, even to the point of exhausting them. In these circumstances it is quite possible that good programming capacity too may stragulate local resources if excessive use is made of the borrowing capacity available.

Hence it is clear that a partial solution as regards programming will not produce satisfactory results. It is necessary to deal simultaneously with the financial problems of improving the process of raising funds, and with the problems of assessing the potential demand for urban services. This is because of the need to ensure that the effort to improve programming has a sound financial basis and at the same time satisfies the aspirations of the people.

3. Financial crisis or economic crisis?

The foregoing analysis shows that the crisis in the supply of urban services tends to be aggravated when the entrepreneurial approach is used, with its adoption of socio-economic and technical patterns borrowed from other countries. In Brazil today this crisis is apparent in the exhaustion of the local funds available for investment in urban infrastructure in most of the Brazilian municipalities. These often rely on trans-

fers and loans from other official bodies, but now they are finding it impossible to resort to loans owing to their very limited borrowing capacity.

In reality, the present financial crisis is closely linked with a broader crisis affecting the whole structure of the national economy. It may therefore be assumed that the aforementioned inefficiencies in the local revenue-collecting systems afford only partial and incomplete explanations of the present financial shortages in the Brazilian municipalities in general.

Accordingly, an adequate supply of funds does not depend exclusively on a good revenue-collecting system. Moreover, the collection of revenue by any municipal authority may of course encounter obstacles restricting the expansion of local finances, and one of these—namely, the population's low economic capacity—is a limitation of a structural nature. This relative financial incapacity of the population is conditioned both by the income structure and by their degree of participation in the overall production process, which can be assessed from the employment figures.

From the situation described above two basic conclusions can be drawn: firstly, in the face of the lack of funds at the local level the broader socio-economic situation must also be taken into account, and secondly, the solutions to be evaluated, conditioned as they are by entrepreneurial criteria, only aggravate a precarious financial situation owing to the high costs of the patterns adopted.

In conclusion, what are apparently financial problems mask chronic economic situations which give rise to the financial deficit and prevent the rapid satisfaction of the needs of the low-income strata as regards urban services.

B. Demand

1. *Formation of demand: theoretical and practical aspects*

Thus far the analysis has emphasized the most important factors in the supply situation from the standpoint of the population's requirements. In the following sections these factors will be examined in relation to questions connected with the formation of demand for urban services.

Before going any further, it is important to define this demand for urban services, so as to gain a clearer idea of its characteristics. Demand is understood as the set of necessities which a specific population considers indispensable for leading an urban life compatible with its aspirations.

This concept of needs places the accent on the aspirations of the community and, therefore, underlines the importance of analysing the demand formation process. A point to be noted is that, within global demand for urban services, it is essential to establish two major distinctions with respect to the formation of demand. The first relates to the income structure, and the other to the actual supply in the light of its limitative patterns.

Such an approach recognizes the existence of a potential demand which represents the whole set of needs and aspirations of the population as regards urban facilities and services, and which is not necessarily explicitly defined or quantified.

Taking this view, potential demand is converted into effective demand accord-

ing to the population's payment capacity, so that the low-income population groups have little chance of seeing more than a minimal part of their potential demand satisfied.

In practice, there is seldom a difference between potential and effective demand, in the case of the population in the highest income strata, since their potential demand can nearly always be satisfied. This scarcely ever happens in the other categories, however, and herein lies a basic distinction resulting from the income structure.

It should be remembered that according to the entrepreneurial approach, if effective demand does not exist a corresponding supply would not be justified. It is therefore the responsibility of the public bodies providing urban services to ascertain the potential demand of the low-income population. Through its various technical and political instruments, the public sector attempts to 'assess' this demand, on the basis of the entrepreneurial approach and its technological patterns.

Consequently, the 'assessed demand' may be understood as the official version of both the potential and the effective demand. This official version excludes, *a priori*, the elements deriving from the socio-economic and technical patterns of the population, which are not officially recognized by the agencies concerned with the provision of services.

As a corollary, a second basic distinction in the formation of demand is to be noted in connexion with the essentially limitative structure of the existing

supply of urban services. This limitation is basically imposed on the low-income population sectors, whereas little difference can be seen between the potential demand and the assessed demand of the middle- and high-income population strata. This is because the patterns of these latter strata coincide with those officially adopted and generally applied in the provision of urban services.

For the rest of the social categories, the disparity between the two types of demand is so marked as to justify the statement that it contains the elements of a serious crisis.

2. *Socio-economic and institutional patterns*

It is a truism in technical circles that the assessment of potential demand, i.e., the definition of priority demands for the authorities, is a direct function of the local decision-making process.

Thus, the directions in which supply will be oriented are determined by a series of multiple pressures or claims through institutions which formally or informally make up local political life, so that the establishment or expansion of urban services is merely a natural and reciprocal response to this pressure system.

Manifestly, then, the demand assessed in these circumstances is the result of a pressure process and, obviously, of the capacity of the various sectors of the population to voice their urban infrastructure requirements clearly and claim their fulfilment.

It follows that the present manner of assessing potential demand for urban services depends not only on the system of influences composing the decision-making process, but also on the existence of formal channels of communica-

tion between those exercising power and the community.

This system of pressures operates through the various existing channels of communication whereby local authorities and/or the agencies providing urban services obtain their information and thence adopt their decisions. Thus, potential demand can only be properly assessed through these institutions, which transmit the claims and thus create a link between those demanding and those supplying urban services. It should be noted that one of the most frequent and traditional ways of assessing potential demand is through political channels, as occurs in the specific case of town councillors, who are primarily spokesmen for the most immediate needs of the population. Although the information thus transmitted nearly always has a strongly political connotation (as could hardly be otherwise), this is one of the most active ways in which the population can make its voice heard at the decision-making levels.

This type of representation is more within the reach of those in the upper income strata (equivalent to the level of the industrialized countries). As a result, the poorest population strata (i.e., those whose needs are greatest) are precisely those which have most difficulty in expressing their demands clearly and, moreover, are deprived of representation through the channels aforesaid. This patent marginalization is due to their economic position and their minor political importance (in terms of actual votes, since illiteracy is still a considerable factor).

Such a situation produces a real distortion as regards determining the aspirations and needs of large segments of Brazil's urban population, and clearly has the effect of widening the gap

between supply and demand where services for the low-income population are concerned.

The lack of formal instruments at the disposal of these population strata has led them to organize themselves spontaneously in neighbourhood community associations. Since urban facilities and related services constitute community assets, in respect of the formation and expression of demand for them such associations would appear to be an important form of organization of the community. The authorities thus have within their reach an efficient means of information capable of providing them with an accurate picture of the consensus of the population regarding its most pressing needs and aspirations. The usefulness of the community associations is readily understandable, since they can furnish both the local government and the agencies which provide services with information based on the real needs of a population whose potential demand has little likelihood of becoming effective demand.

The experience of some Brazilian cities in the field of community development bears out this statement. Accordingly, the performance of these types of neighbourhood associations, in those urban centres where they still exist, shows that their possible strengthening and habitual consultation by local governments, far from being negative for these latter, is not only highly positive for them but also very desirable from the standpoint of the formation of demand.

Moreover, the mayors and their representatives can learn about the population's problems through these associations. Finally, dialogue between the local government and the community is a valuable innovation which, while fraught with some risks, nevertheless possesses undeniable merits.

3. *Economic crisis or crisis of patterns?*

In addition to the above-mentioned trend towards a crisis of supply, there are two basic problems on the demand side which are leading the low-income population sectors into a critical situation.

The first relates to the economic structure itself, which prevents the transformation of potential demand into effective demand, because of the inability of those sectors to pay for the urban services provided. The second problem concerns the official patterns of supply, i.e., the discrepancy between potential (or effective) demand and assessed demand.

The first case is closely linked with the individual's economic situation. That is, where supply is generated in accordance with entrepreneurial criteria, effective demand assumes capital importance in attracting the corresponding supply. In other words, only the middle- and high-income strata have the capacity to pay for urban services, as can be seen from the following table.

The table shows that the proportion of dwellings in each income bracket which had piped water and sewerage in 1970 increases progressively in direct relation to the level of income. In addition, it is only in the highest income strata (3 000 cruzeiros a month and over) that the proportion of dwellings supplied with water — 76.3 per cent, 84.1 per cent and 89.3 per cent, respectively — is as high as the present levels of this service in the more developed countries. It is extremely significant that while virtually all housing units in the industrialized countries are found in these income categories (over 3 000 cruzeiros),² only a minimal percentage falls within them in Brazil.

It can be seen that at the present time the dwellings with satisfactory water supply are precisely those corresponding to the higher income levels. As regards sewerage services, too, there is the same disequilibrium between the various population strata. Moreover, it will be observed that the proportion of housing units with sewerage is much lower than the proportion with piped water. This is accounted for by the inclusion of rural dwellings, which do not require sewerage whatever the income level.

If it is assumed that the same situation arises in the case of other services making up the urban infrastructure, a serious crisis can be said to exist, of which the economic manifestation is the inability to convert the existing potential demand into effective demand.

The so-called economic crisis is thus aggravated by the present patterns of supply and by the method of defining the assessed demand; as noted earlier, the high costs deriving from complex technologies and the difficulty of introducing them at the local level put these patterns well out of the financial reach of most of the population.

The discriminatory nature of the technological patterns used precludes, to

a certain extent, the adoption of solutions not officially recognized, which are discouraged on grounds of technical efficiency; and this in turn adversely affects the efficiency of local technologies in that it hampers their development. For example, hardly anything has been done to develop simple septic tank technology as a means of solving the problem of human wastes disposal. This method, although quite safe from the health point of view if the population density is low and watercourses are duly respected, is not encouraged officially because it does not fit in with the progressive image which the dominant sector of society wishes to promote in the supply of urban services.

Solutions of this kind, which are currently in use among the low-income population, instead of being considered as concrete possibilities for remedying the shortage of some urban services, are regarded rather as problems.

In such conditions, the impossibility of assessing potential demand and the failure to make use of existing techniques which reflect a high degree of inventiveness still further handicap the complex task of improving the quality of life for Brazil's urban population.

² Although there is still a certain amount of difficulty in making this type of comparison, it can nevertheless be affirmed that in the same year approximately 90 per cent of housing

units in the United Kingdom were in the income strata corresponding to 3 000 cruzeiros and over (see Central Statistical Office, *Annual Abstract of Statistics*, London, H.M.S.O., 1974).

**BRAZIL: EFFECTIVE DEMAND FOR WATER SUPPLY AND SEWERAGE SERVICES
BY THE DIFFERENT INCOME STRATA, 1970**

| <i>Monthly household income^a (cruzeiros)</i> | <i>Number of dwellings (thousands)</i> | <i>In each income stratum:</i> | |
|---|--|--|---|
| | | <i>Percentage of total number of dwellings with water supply^b</i> | <i>Percentage of total number of dwellings with sewerage services^c</i> |
| Up to 150 | 979 | 2.1 | 0.7 |
| 151 - 300 | 2 747 | 3.1 | 1.1 |
| 301 - 450 | 2 162 | 7.0 | 2.6 |
| 451 - 600 | 2 281 | 14.6 | 6.2 |
| 601 - 750 | 983 | 18.6 | 7.8 |
| 751 - 900 | 1 174 | 25.6 | 11.1 |
| 901 - 1 200 | 1 394 | 33.1 | 14.8 |
| 1 201 - 1 500 | 1 039 | 42.9 | 19.9 |
| 1 501 - 3 000 | 2 198 | 58.2 | 28.5 |
| 3 001 - 4 500 | 692 | 76.3 | 40.5 |
| 4 501 - 6 000 | 340 | 84.1 | 46.8 |
| Over 6 000 | 543 | 89.3 | 51.2 |
| No income declaration presented | 1 097 | - | - |
| <i>Total</i> | <i>17 629</i> | <i>27.4</i> | <i>12.1</i> |

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), Eighth Population Census of Brazil, 1970. Guanabara, June 1971.

^aAt 1976 prices.

^b'Water supply' is understood to mean a system of water mains with internal connexions to dwellings.

^cThe term 'sewerage services' is understood to mean that the dwellings are connected up to a main sewage system.

Conclusions

An analysis of supply and demand with respect to urban services is undoubtedly a highly complex matter, and cannot be fully dealt with in this brief article. A great many doubts still remain, and the conclusions set forth here relate to a group of hypotheses, so that they are subject to critical revision. Provisionally, however, and allowing for these limitations, they can be taken as a first approximation to the problems under review.

The analysis has shown that a critical situation exists as regards the supply of urban services. Financial implications are frequently invoked to substantiate the true nature of this crisis. Explanations of this kind may be satisfactory as regards the conjunctural elements in the present situation, but they represent only a partial view of a much deeper problem: the economic crisis.

It has also been noted that this economic crisis is the main cause of the critical situation affecting demand. Therefore, when examining the true character of the disequilibrium between supply and demand in respect of urban services in most Brazilian cities it is impossible not to take into account the structural crisis.

Accordingly, one of the main purposes of the present study has been to show that there is a critical situation of this type which affects demand owing to limited payment capacity, and which is at variance with the adoption of an entrepreneurial approach to the supply of urban services. This has led to a veritable impasse, determined either by

the population's lack of economic capacity or by the public services' need to rebuild their stock of capital.

Brazil's existing economic structure (considered from the standpoint of the present situation of the low-income sectors) is incompatible with a supply of urban services which is generated in line with entrepreneurial criteria and, moreover, adopts technological patterns suited to industrialized countries.

The chief incompatibility makes itself felt in the local agencies providing such services, which are unable to develop investment programmes with their own resources or—in view of their low borrowing capacity—to turn to external sources of financing; to say nothing of their inability to apply the technological patterns aforesaid. Admittedly, then, even if the financial crisis were overcome by means of a rapid increase in local financial resources, the municipalities would still be held back by the lack of capacity to programme, put into execution or carry through projects on the basis of patterns copied from quite different environments.

It should therefore be stressed that the refusal to recognize other technologies adapted to local conditions greatly intensifies the financial crisis, in view of the high costs of the technological patterns adopted by the official institutions.

In technical circles it is often suggested that in order to resolve this crisis the payment capacity of the low-income sectors should be increased rapidly through a rise in the total gross product. Even if such an increase were to be

achieved, however, it seems unlikely, given the present parameters of the model, that these sectors would ever have sufficient payment capacity for it to find expression in effective demand. The public sector, therefore, is basically responsible for correcting the distortions encountered in the generation of the supply of the services in question.

Moreover, since the population strata which are currently enjoying satisfactory urban services in Brazil are precisely those which possess a higher level of income and are in a position similar to that of the social strata in the industrialized countries from which the official patterns of supply for those services are obtained, it is considered of basic importance to prepare all-embracing programmes for the present supply of urban services, that will contemplate technological innovations compatible with the internal differences existing between the economic and social conditions of the urban population as a whole. In this respect, it is important to base such innovations on the valuable experience built up by poorer communities, as exemplified by the construction of their own housing without the assistance of official institutions, and even the spontaneous organization of their own water, sewerage and street-cleaning services. Such a revision of the official patterns

would imply recognition of the structural heterogeneity of Brazilian society, which is expressed in economic, social, cultural and other terms.

Within this approach, the community associations are of great importance as an element of reference for the amplification of technological patterns and the search for alternative solutions. They can transmit not only the real needs of the low-income sectors, but also their cultural characteristics. In addition, they can play an important part in defining the various types of technologies suited to each case, on the basis of their past experience.

Thus, it is considered that only through direct on-the-spot assessment of the real aspirations of the low-income population sectors by the institutions providing the services can the first steps be taken to overcome the present crisis.

It is therefore clearly a matter of urgency to make a comprehensive study of the potential and effective demand of these sectors, keeping in view a probable revision of the premises of the entrepreneurial approach and, consequently, of the patterns adopted. As a result, with the establishment of goals on the basis of the real situation, appropriate responses can be formulated to the great challenge presented by the task of improving the quality of life of Brazil's low-income city-dwellers.

On the article by Raúl Prebisch “A critique of peripheral capitalism”¹

*Comments by Joseph Hodara**

I

From what standpoint should Dr. Prebisch's essay on peripheral capitalism be viewed? There would seem to be at least four possibilities.

The first relates to the development and problems of the social sciences in general. In this context, it would be meaningful to ask how far the article represents a convergence of prevailing currents of thought or a turning-point; whether it contains important taxonomical and conceptual contributions; what agenda for socio-economic research it suggests; and whether it sheds light on the formulation and evaluation of policies.

A second angle of approach might be to consider the place of the study in relation to Dr. Prebisch's personal and institutional career and its repercussions—unquestionably significant—on economic thinking in Latin America. In this case it would seem relevant to investigate whether the “Critique” does or does not constitute a somewhat weary reiteration of what has already been said and done, or whether it in fact involves new motifs corresponding to recent experiences or to barely-glimpsed turns of events in the periphery. An additional question that

might be raised is to what extent Dr. Prebisch's analysis points to a change in the styles of work that have characterized the institution which bears his indelible stamp.

From a third point of view, the essay could be seen as an ideological allegation on the part of an intellectual and of a region genuinely concerned about international inequality and internal disorder. Here the terms of the appraisal would be different; the timeliness, the intended recipients and the structure of the message would constitute its focal points.

Lastly, it would also appear appropriate to envisage Dr. Prebisch's statement of the case as a mirror of the ambivalences and contradictions in the peripheral situation.

Any one of these types of analysis would reveal significant aspects and components of Dr. Prebisch's thinking, which, if it is to be properly understood, needs looking at with more than ordinary attention. Progress in such explorations has been timorous; for the purposes of the present comments, emphasis will be placed on the last angle of approach. First, because we consider it relevant here; and secondly, because the author himself, in embarking upon his study, has apparently assumed from the outset the role it implies.

Let us begin by remarking that the ambivalences noted by Dr. Prebisch are

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disparate in character. Some derive from external factors, while others are of local origin; some have plenty of antecedents in development-oriented thinking, whereas of others nothing has yet been said.

We will summarize these ambivalences with the aim of substantiating two critical comments on Dr. Prebisch's essay: one in a minor key, to the effect that the inventory of peripheral contradictions is by no means complete; and the other of major importance, claiming that neither the agents of these contradictions, nor their peculiar relationship, nor the possible dénouement are satisfactorily dealt with, although interesting lines of thought are suggested.

II

The ambivalences in the history of the periphery are indeed overwhelming. Those that Dr. Prebisch points out are the following:

(1) The growth of the periphery has not brought social justice in its wake, as certain economic conceptions and an ingenuous humanism had expected;

(2) Nor has growth involved democratization, thereby belying political forecasts based on the institutional experience of advanced capitalism;

(3) The stimulating role played by the centres in the initial stages of peripheral development contrasts with the functions of constraint which they fulfil today;

(4) The atony of peripheral capitalism differs markedly from the revolutionary and dynamic character displayed by capitalism in the central countries, both in its early phase and in its maturity;

(5) There are ambivalences and loopholes in an external relationship which fluctuates between passive depen-

dence and the emergence of a peripheral cycle;

(6) Contradictory, too, is international co-operation as conceived by the centres, since at times it has a stimulating quality, and at others, in contrast, serves as a means of domination;

(7) At the internal level spring up the ambivalences of the State, which at one and the same time spurs on and clogs the economic and political processes;

(8) From another standpoint, the State supplies an ideology and a body of decisions favourable to capital accumulation, but lends itself to the spurious absorption of skilled manpower;

(9) Over the long term the State aims at the formation of human resources, but over the short term it tends to squander and destroy them;

(10) These last facts constitute variants of a basic discrepancy: the collective rationale intermittently crystallized in the State is in conflict with the individual impulses which unremittingly distort development;

(11) Technical change likewise is a tangled process. From the point of view of trade, it seems slow and inadequate; from that of employment it is much too rapid and all-pervading. Hence the contradictory complaints about the nature and tempo of the inflow of technology;

(12) Nor is the market exempt from ambivalences. Left to the free play of its own forces, it disturbs and distorts resource allocation criteria and the whole warp and woof of the social system. Kept under control, it stifles individual initiative;

(13) The distribution struggle has its right and wrong sides. It is the symptom—and the hope—of genuine desires for equity, but it also precipitates recourse to authoritarian measures;

(14) From another standpoint, this struggle moderates the socially regressive implications of inflation, but it is injurious to the monetary authority which might have been able to arrest the inflationary trend.

These ambiguities reflect the inadequate, equivocal and contradictory development of the periphery, which Dr. Prebisch fits into the framework of a structuralist and political interpretation of Latin American development; and they constitute valuable material for analysis which merits patient research.

III

But these are not all the ambiguities that exist. There are several dissonant notes which the author of the article slides over. Whether for lack of space or in the light of personal or institutional considerations, Dr. Prebisch evades discrepancies as sharp as those he does mention.

(a) Marshall Wolfe points out one of them in his comments: the tension between the values required for a structural change in peripheral conditions and the values prevalent today. It would seem that what is wanting in Latin America is a functional equivalent of that abode in the hard school of the desert which Moses imposed on his people . . . ;

(b) A corollary of this —with its own independent significance, however— is the awkward and ambivalent position of intellectuals in the life of the periphery. In some cases their ideas and their conduct are distressfully penalized, but in others they are flourishing participants in the consumer society, reaping a twofold benefit from the crisis itself and from the studies of it;

(c) As regards the ties with the hegemonic centre, the following discordancy should also be pointed out. The

asymmetrical situations which they create and consolidate —with the complicity of local factors— are beyond question; but they also leave margins of comparative latitude which crystallize in a substantial capacity for reflexion and negotiation. And this safety-valve must not be underestimated, in a world with strong 'totalistic' tendencies;

(d) Neither the centre nor the periphery is homogeneous. There are signs of brusque discontinuities within the periphery, although in some contexts it displays unity. In contrast with other ambivalences which affect the national order and relations with the centres, internal heterogeneity may have a regrettable effect upon the linkage between peripheral countries;

(e) And one inconsistency of capital importance can no longer be concealed. The *economic* logic predominant in the periphery, and reflected in parts of the article, bears a marked keynesian flavour. The aggregates of the analysis —employment, income, product, technical change— and the economic arguments distinctive of Latin American thinking revolve, sometimes inadvertently, in that orbit. But the *political* logic inspiring peripheral thought usually contains echoes of marxism, since it involves international and local projections of a circumstantial analysis based on the struggle of interests and classes. And for the moment, unfortunately, the time for a synthesis of schools of thought or lines of reasoning has not yet come; what exists is a juxtaposition which may perhaps open up a channel for a confluence of categories and approaches.

IV

Apart from these ambiguities —omitted from Dr. Prebisch's essay—, emphasis

should be placed on the analytical flaws. And we would say at once that neither the agents of the contradictions, nor their interconnexions, nor the dénouement are satisfactorily brought into focus.

The essay deals with elements which determine the physiognomy of the periphery: power relations, insufficient capital accumulation, external dependence, the contradictory nature of technical change. But it does not identify the agents. If, for example, power is of decisive importance, why are no definite questions posed on the genesis, nature and conduct of the peripheral State? How does this latter –and alongside it, the market, technology and the influence irradiated by the industrial centres– resolve problems of legitimacy and functionality? For whom, why and from what point of view are these components acceptable or anathema? Which are the groups that really take part in the distribution struggle? And how do they affect that monetary authority which Dr. Prebisch recalls with nostalgia? Why is the actual so far from the ideal allocation of resources? What is the nature of the channels through which the hegemonic centre provides stimulus and exerts domination, and what is the underlying logic?

The author hardly touches upon these questions.

Furthermore, the relationship between the agents is not closely scanned. The essay seems to suggest a *political* theory of the Latin American situation. The causal model would appear to be based on the patterns of distribution of power and a pervasive politization of the peripheral economic system. But this line of reasoning is not kept up to the end; the text also indicates that insufficient capital accumulation is the key to

peripheral backwardness, and that imitative dependence has its roots in the inequalities of trade.

The argument thus becomes less forceful. For if the analysis had followed the politization of the peripheral situation right through to its final implications, provocative questions would have arisen. For example, in what sense is peripheral development capitalist? If it lacks the dynamism and the potential for change that typify the capitalism of the centres, is not the epithet a gratuitous attribution or a taxonomical slip? Or again, the affiliation and the label, strictly speaking, are meaningful, but only in so far as the periphery is considered not merely as part of the *capitalist system* but in a *geopolitical matrix* of control and domination. In this case, the analysis should not merely rely on the economic instrumental; it should also invoke classic concepts (such as 'spheres of influence') and others not yet current (such as the long-term calculations of industrial societies perturbed by a closed and insurgent international system) which derive from the political analysis.

These ramifications have not been traced with precision owing to a methodological syncretism which is of value in syntheses or in diplomacy, but is unsatisfactory as regards the opening-up of new avenues for research.

Lastly, the essay evades the questions relating to the dénouement. Might this peripheral development process –promising and inhibitive at once– lead to a greater although self-complaisant vulnerability? To a struggle as heroic as vain? To a hermetic isolation of the periphery from the contradictory impulses of the centres? If the article had explored this ground it would have discovered a vital fact: that analyses of peripheral development –in view of the

frustrated experiments and the difficulties of establishing an international order—should culminate in a theory of violence.

V

A sentence in the Talmud lays it down

that no man is called upon to finish his work; it is never-ending. Yet considering the record and the stature of the essayist, we may still look forward to seeing the queries and topics that are bypassed in the article tackled before long.

*Comments by Eugenio Kossarev**

The "Critique of peripheral capitalism" published by Dr. Raúl Prebisch constitutes a new and important contribution to the development of the thinking which, since the end of the 1940s, has played a vital role in Latin America's advance towards its economic development and independence within the framework of a market economy. Without analysing the progress made by the Latin American countries in this respect—which is a different topic altogether—stress should be laid on the originality and interest of this study, part of which appears convincing and acceptable while another part invites controversy.

The "Critique of peripheral capitalism" represents an important step forward in the evolution of the 'peripheral economy' theory and raises the level of analysis of the development of Latin America by virtue of the new socio-economic approaches adopted. The peripheral economy theory afforded the bases for the preparation by CEPAL, and by many noted Latin American econo-

mists, of the Latin American development model known as the 'CEPAL doctrine'; the new theoretical contribution by Dr. Prebisch opens up fresh possibilities for its further elaboration.

This hardly seems the place to discuss whether or not the title of the doctrine accurately describes it. In my view the one usually applied to it does not, because the term 'CEPAL doctrine' fails to reflect its theoretical groundwork. The peripheral economy theory and the development model constructed on that basis are, by their content, different categories which can stand apart. While the former explains the origins and premises of the Latin American situation and suggests ideas for changing it, the latter is presented as a combination of objectives, means, mechanisms and driving forces for introducing the changes in accordance with those theoretical ideas. Accordingly, it would be more correct to talk about the 'CEPAL-Prebisch doctrine', for if the model does not exist without the theory, the theory without the model would have been in the nature of a mere abstraction.

Another reason for the need to give an exact title to the Latin American

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development doctrine which has been proposed and is being worked out by CEPAL is that there are innumerable doctrines which, because they are called 'developmentalist', may be confused with CEPAL's, while having little in common with it. They can often be seen to analyse and criticize the CEPAL doctrine without taking into consideration the main positions and ideas of the peripheral economy theory, a tendency which in practice leads to interpretation of the CEPAL doctrine in many different ways and to the loss or substantial alteration of its content and origin. It is common knowledge that numerous doctrines exist which are termed 'developmentalist' but which bear no relation to that of CEPAL.

Furthermore, such a plethora of interpretations of the doctrine of Latin American development, only superficially linked with the CEPAL doctrine, hampers thorough, critical and constructive analysis not only of this latter but also of the peripheral economy theory. Obviously, all interpretations have a right to exist, but it would seem more useful, both from the theoretical and from the practical point of view, to analyse them separately instead of labelling any and every 'developmentalist model' as 'CEPAL doctrine'. To use the term 'CEPAL-Prebisch doctrine' in these pages, however, would precipitate a discussion that would hinder comment on Dr. Prebisch's new theoretical approach.

The peripheral economy theory explained that the market-economy countries are divided into two main groups, i.e., the 'centres' and the 'periphery'; that national resources and incentives must serve as the essential basis for the peripheral countries' development; that existing conditions in international economic relations are not consonant

with the development requirements of the peripheral countries and should be improved; that radical changes in the socio-economic structure are necessary in the Latin American countries; and that such changes can be made on the basis of private ownership of the means of production under the guidance of the State. That at least was the image of this theory formed outside the continent.

In it, however, recognition of the mode of production, i.e., the socio-economic basis of the peripheral economy, was absent. It accepted the form of ownership as a given premise, and took no account of the mode of production. It lacked the elements that predetermine the correlation and function of the productive forces, that establish what opens up the prospects for their development or fixes its limits, and what may act as a source of internal contradictions during the reproduction process. It laid strong emphasis on the role of private enterprises, and also on that of planning and of State participation or intervention in economic affairs. All this gave impetus to the creation of the institutional machinery and promoted the measures designed to translate development theory into terms of practical results. At the same time, the range of varying interpretations of the socio-economic basis of the peripheral economy multiplied the interpretations of the theory itself. In a sense, the failure to recognize the mode of production could be explained by the argument that the theory was still being worked out by the United Nations, but such an explanation strengthened neither the theory nor the doctrine.

The introduction of the 'peripheral capitalism' concept in the scientific analysis of the development problems of most of the Latin American countries

signifies acceptance of the socio-economic and political basis of the mode of production prevailing in many of the countries of the region. The problems of peripheral capitalism set forth in the article bring into focus not only the questions it raises with regard to stimulating the development of the continent, but also the difficulties and barriers in the way, as well as possible solutions. 'Peripheral capitalism', as a theory, is closely bound up with the peripheral economy theory, and simultaneously underscores the main characteristic of this type of capitalism: namely, that it is extrinsic to many processes which take place in the developed market-economy countries. The very term 'peripheral' indicates once again that Latin America's position in the international division of labour is still marginal, that the region occupies a specific place in the system of international economic relations, and that its development is still primarily predetermined by external forces and conditions.

In the world of today there are two socio-economic and political systems, the socialist and the capitalist, each with its own distinctive criteria and characteristics; and alongside these, the broad group of so-called developing countries which by reason of their development characteristics and idiosyncracies make up the group of countries in transition which are seeking their way. Sometimes they radically alter the particular pattern of development they choose. Accordingly, the new name of peripheral capitalism for the peripheral economy more completely and exactly reflects the basis and the peculiar features of the situation and development of many Latin American countries. At this point it should be emphasized that, as was the case twenty-five years ago or more and still is today,

the peripheral economy theory and the new 'peripheral capitalism' formula are not pertinent only to Latin America; they belong to the Third World. Although theories abound and their reconciliation is occurring very slowly or is only in the embryo stage, the theory of the peripheral economy, and now that of peripheral capitalism, appear more logical, more convincing, more soundly reasoned and of more practical significance for the developing countries which still remain in the market-economy area. The peripheral capitalism theory, on account of its content—in particular the mode of production—brings out other aspects of these countries' struggle for economic development and for independence in their international economic relations. The foregoing remarks, however, are by no means intended to suggest that the theory is devoid of weaknesses or contradictions.

The structure of the study under consideration is clear and attractive. Neither the titles of its chapters or sub-sections nor its conclusions and arguments can leave us cold. It underlines, in a strictly concise summary, the typical features of peripheral capitalism; reference to some of them therefore seems required.

Dr. Prebisch begins his article by recognizing the disappointment of expectations with regard to income redistribution and the consolidation of the democratization process. Many Third World countries used to—and indeed still do—entertain high hopes that the incorporation of new technology, the introduction of modern techniques from the centres, would be one of the most effective ways of benefiting all the social strata, particularly the broad masses of the population; and this in turn would help to consolidate the process of de-

mocratization. The substantial change introduced in the productive forces by the incorporation of new technology is obviously significant. Yet analysing the expectations aroused, Dr. Prebisch rightly says at the very beginning of his article that "the facts forbid us to go on fostering such illusions" (p. 9). This conclusion is of great importance, since hopes are still being pinned to the achievement of changes and development basically through the transfer of technology from the centres to the peripheral countries. There are obviously many socio-economic development problems which cannot be resolved through such transfers, but must be dealt with by other means

Another of the main conclusions the author reaches is that behind the relations between the 'centres' and the 'periphery', the power of the centres is still as dominant as ever, and that the contradictions between centres and periphery persist in full force. One of these contradictions is that the hegemony of the centres limits the freedom of decision-making of the peripheral countries (p. 11); in other words their hands are tied in the most important respect, i.e., the formulation and implementation of internal and external economic policy.

Furthermore, Dr. Prebisch's contention that in the development of countries where peripheral capitalism prevails "the employment of labour... must increase faster than productivity" (p. 13) is a new departure in economics. This problem confronts alike the developing countries that remain within the market-economy system, and those that are pursuing other paths in the arena of economic, social and political development.

Dr. Prebisch also points out, *inter alia*, that "this excess demand allows the

primary appropriation of the fruits of increased productivity by the owners of the means of production" (p. 13). In addition, he refers to the exacerbation of the distribution struggle; the necessity of the market as an economic mechanism and its powerlessness to resolve income redistribution problems; the economic incapacity of peripheral capitalism, or, in the author's own words, "the insufficient dynamism of the economy" for rationally assimilating technical progress, raising productivity and ensuring an improvement in income distribution as well as capital accumulation at a normal rate and along such lines that investment will not cause a decline in the absorption of labour; the contradictions in manpower training which are characteristic of the insufficient dynamism of the economy; the bases and special features of the free play of economic forces, and of the redistribution struggle, together with the inadequacy of the market regulating mechanism; the basic trends and characteristics of the present-day development of centre-periphery relations.

In considering all these facets, peripheral capitalism is being analysed from different points of view, and its content reveals the wide variety of driving forces which set it going as a system, as well as its inherent contradictions. Obviously, the range of approaches would have to be broadened for the purpose of studying the content of that process and analysing it in each of the areas mentioned. But two vitally important aspects of peripheral capitalism which are examined in the study merit the closest attention.

Chapter III, entitled "Primary appropriation of the fruits of technical progress", is of outstanding significance; in it the fundamental topic of the socio-economic basis of technical progress is

tackled, and the essential characteristics of peripheral capitalism are thus brought to light. This enhances the importance of chapter III (together with chapter V) as the backbone of the development of the peripheral economy theory, thanks to the introduction of the concept of 'mode of production' in the analysis, albeit the actual term is not used. The analysis of the mechanism for tapping the final product, or more precisely, for the appropriation of the fruits of technical progress, centres on the process of formation and appropriation of the 'surplus'. The content of this chapter is much more profound and far-reaching than its title suggests, since it analyses peripheral capitalism, or –no less important– describes one of its basic manifestations, i.e. imitative capitalism.

The terminology used in this chapter necessitates the definition of certain concepts. There are grounds for asserting that 'tapping' is synonymous with 'appropriation'; that 'surplus', as follows from the analysis, corresponds to 'surplus value'; that 'contraction' is equivalent to 'crisis of overproduction'. Among these terms, 'surplus' calls for some explanation, since it seems a debatable expression as it emerges from the context of the article and from its title.

The text reads as follows: "The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital" (p. 37). Some lines higher up it is stated that in the production process the "entrepreneurs pay the income of the . . . labour force" (p. 36). Altogether, the 'surplus' formula is clear in that it reflects the cost of production and the total value received by the enterprise; according to the article, it represents the value transferred from the installed means of production to the final product. It also

shows what the enterprise pays to the banks for credits and the interest lost owing to the gap between the time when its production outlays are effected and the date on which it receives the profit from the final product. The author rightly notes that these outlays vary during the production process in accordance with market changes and inflation.

The 'surplus' formula, however, lacks specificity in respect of an important component, the one that generates the means of meeting the aforesaid outlays (raw materials, the part of the value of the production goods that is transferred to the value of the final product, payment for short-term operational credit, etc.). It lacks specificity in respect of the labour factor, whose cost is included in the cost of production as just another item of current expenditure. But the formula obscures the fact that part of the value created is received by the labour force and the rest, which the labour force also creates, never reaches it. The value of labour and the value created by it are always different, except in the natural economy. The 'surplus' formula is correct in the sense that it includes the production costs which can be measured in monetary terms; these costs are visible and necessary for the calculations pertaining to the process of producing and marketing the final product. It is incomplete, however, if account is taken of the difference referred to above, i.e., the social character of work and the manner of distribution of its results. The 'surplus' concept does not make this difference clear; and in the event of an attempt to extend the analysis of the production process, it would be more likely to hamper the undertaking.

In the article we are analysing, stress is laid on the dynamic nature of the

surplus during its formation; but some attention must also be devoted to the other side of the dynamism of the surplus, to make use of this term for the moment as signifying the motive force and principal incentive of the production process. Alongside these conclusions, however, the question arose as to whether the 'surplus' reflects the connexion between production goods and the 'labour power of the worker' (in the sense of the saleable good represented by the capacity to work), as well as —what matters most and is least visible in this formula— the problem of the relations between the owners of the one and of the other, and how they are interlinked in the production process. For the purposes of analysing the peripheral economy, peripheral capitalism or an economy based on any other mode of production, the study seems to need extending to cover production relations as well.

These aspects of the 'surplus' concept which emerge from its analysis in the light of the main problem —'the crisis of peripheral capitalism'— lead on to another concept, that of 'surplus value', which, in my view, reveals the economic and social roots of the creation and reproduction processes. The 'surplus' originates, as is normally affirmed, from trade in goods, investment, current expenditure and marketing of the final product. But the social content of one of the components of the production process —the 'labour power of the worker'— and the special nature of its participation in the creation of the final product tend to be overlooked. Whether the concept used is the 'surplus' or the 'surplus value', the basic question in both cases arises: how is it created and in the interests of which social strata, and by whom and how is it appropriated?

The article provides a clear answer: it is appropriated by the owners of the means of production (p. 37). This answer is the true one, but it is not deduced from the 'surplus' formula; only the 'surplus value' concept leads to this basic conclusion.

Other important features of peripheral capitalism are also considered in chapter III, of which the structure and actual content demonstrate with emphatic precision the cyclical character of development, which is typical of the capitalism of the centres and the periphery alike. According to a statement on p. 41, "the cycle is the growth pattern of the capitalist economy"; and it follows from the text that the cycle, beginning with investment in means of production and expenditure on labour, passes through a phase of ill-balanced development and monetary expansion, inflation, and inability to absorb and accumulate the 'surplus' and channel it into the expansion of production and consumption, until an 'economic contraction' ensues (p. 40), or, in other words, a crisis of overproduction.

The exposition and brief analysis of these problems, within the limited space of the article, focuses on the conclusion that the peripheral cycle was set going by the cycle in the centres (p. 41), or, in other words, it was subordinated to this latter cyclical movement. Here we have yet another indication of the subjection of the peripheral economy to outward-directed development, and this is the crux of the matter, since the cycle constitutes one of the reflections of the basis of the market economy and the nature of its operation. If the analysis of peripheral capitalism and its origins, peculiar features and cycles is pursued, it seems appropriate and necessary to compare the progress achieved through

inward-directed development with what has been inherited from outward-directed development, and with the outward-directed elements that still subsist in the economy of the peripheral countries. This is what I deem to be of most living interest in the analysis of the peripheral capitalism of today.

Chapter V is of great importance for the study of the crisis of peripheral capitalism. Two other aspects of cyclical development are mentioned in it, one of which is typical of capitalist development in general and the other of peripheral capitalism. On page 58 it is stated that "the cycle is the natural form of capitalist development", and that the waves of prosperity flowing from the centres, which stimulate the development of the periphery, are followed by the ebb that does more serious and penetrating harm to the periphery than to the centres. Not only are these effects more damaging but they are inherent in peripheral capitalism.

The key features of peripheral capitalism are typical of pre-monopoly capitalism and at the same time reveal one of the most important characteristics of peripheral capitalism as compared with capitalism in the centres: the backwardness of its institutional links and economic mechanisms. Here, however, it seems relevant to point out that some aspects of peripheral capitalism are not discussed in the article, and I should therefore like to mention them and to suggest that they be included in the analysis. They are:

- The low level of institutionalization in the organization of production in the peripheral countries;
- The leading role played by money and prices as regulators of growth, and the habit of underestimating (in practice, not in scientific studies or

government plans and laws) other regulators of which capitalism in the centres actively avails itself (the tax régime and other incentives, planning, direct State intervention and participation in production, scientific and technological progress, export promotion, etc.);

- Overestimation of the free play of economic forces and underestimation of control and management of the market mechanism;
- The means of preventing total subordination of the development cycle of the periphery to the cycle in the centres;
- The inability of peripheral capitalism to reach provisional compromises –as State/monopoly capitalism has sometimes been able to do– and the limits of the effect of such compromises in the conditions proper to peripheral capitalism;
- The mentality of the entrepreneur in peripheral-capitalism countries and the part he plays in their development;
- The economic and social problems of peripheral capitalism from the standpoint of the democratic forces of the countries concerned (the term 'democratic' is used here in a broad sense, according to the countries' social structure).

It was true to say that "the peripheral cycle is virtually unexplored" (p. 41), but we should add that it still remains so, since nothing has been done to explore the cycle within the framework of which peripheral capitalism operates. The special nature and basic characteristics of this mode of production at the periphery have yet to be sufficiently studied.

In addition to the aspects and problems of peripheral capitalism already

mentioned, others remain to be explored.

The new term suggested in the article, 'imitative capitalism', is unknown, although it expresses in a word the essence of the type of capitalism existing in some of the developing countries. If such capitalism is imitative, what does it imitate? The economic structure and the forms and level of development of the productive forces? The organization of the production process at the national and enterprise levels? The institutional structure of State/monopoly capitalism, its methods of intervention in the economy and its particular way of resolving social problems? Methods and measures for resolving the problems connected with the development and operation of the State-monopolies-science triangle? Relations within the classic triangle of bourgeois democracy – State-entrepreneurs-workers – or, as would seem more accurate, the interplay of power relations in this triangle? Or perhaps consumption?

Since the end of the 1960s peripheral capitalism has been studied in the socialist countries, particularly active interest being shown by the Soviet Union, the German Democratic Republic, Hungary, Poland and Czechoslovakia. Although they do not use the term 'peripheral capitalism', they are studying its emergence, special features and limitations; controversies are waged and publications are issued.

In contrast, peripheral and/or imitative capitalism has been very little explored in Latin America itself, notwithstanding that the approaches to such a study exist and are sufficiently well known. Among them is an alternative which was put forward many years ago, and is indeed the basic option: development in which direction (and we would

add: for whom?), outwards or inwards? From this angle the study of peripheral capitalism can be intensified and carried out in greater depth.

In developing countries inward-directed development under conditions of peripheral capitalism is capable of leading to positive results.

Inward-directed development, while avoiding self-sufficiency and seeking primarily to evolve a diversified structure and a more independent economy, allows a country to formulate external and internal economic policy goals and measures that are genuinely its own, in keeping with the national interest and conducive to the improvement of its position in the play of international economic relations. This last result is one of the really important advances which a country belonging to the area of peripheral capitalism can achieve, within certain limits, through an inward-directed development policy. The implementation of such a policy will certainly permit a developing country to improve its position vis-à-vis the centres and in the international division of labour in the capitalist world, and will enable it to take advantage of the reserves that capitalism still possesses in the developing countries. All this by no means implies that peripheral capitalism does not reproduce the contradictions inherent in its mode of production, or that no permanent internal factors exist to curb the implementation of such an economic policy, since side by side with the potential and reserves available for economic development there are the barriers that obstruct social and political development. Peripheral capitalism has its limits as regards resolving the economic and, in particular, the social and political problems of the societies concerned.

These queries, and the aforesaid peculiarities and characteristics of peripheral capitalism, do not mean that this version of capitalism, or the State/monopoly type, can solve the problems with which the countries forming the system are faced; but in any case the possible paths and solutions open to peripheral capitalism should be explored.

Chapter V deals with what is the hardest and most important problem, for it constitutes one of the key issues in peripheral capitalism: democratization of the operation of its economy. Although the chapter starts with a reservation regarding the limits set to the analysis, both its specific content and the rest of the article warrant only one interpretation: in whose interests does this economy operate, in the interests of what forces—internal or external—does peripheral capitalism develop? The statements made in Chapter V invite both agreement and reinterpretation and discussion, since they bring to light the social mechanisms of the operation of peripheral capitalism, and this is the other important contribution made to the development of the peripheral economy theory.

The whole group of problems involved in the democratization of the operation of the economy is considered in the context of the interplay of power relations, and consequently the success of the democratization process is completely subordinated to the free play of the forces of a backward and non-directed economy. Spontaneous, fortuitous factors can therefore support it, hinder it, or bring it to a crisis.

From a different angle, this view of democratization sees it as the incorporation of new social groups or strata in active and increasing production for the market, whereby the distribution of the

national income can be more extensively democratized. The incorporation of new strata in this process gives rise to new social problems in peripheral capitalism.

All these questions derive from the assumptions and positions adopted in this chapter, which starts with a proposition concerning interdependence between democratization and development—a matter of basic importance. The self-imposed limitation of the analysis, however, does not preclude the appearance of problems in this area. At all events, one of the characteristics of outward-directed development is well formulated: the “predominant political power was that of the members of the upper income strata, whose links with foreign capital were very strong”, and “most of the population remained submerged in a layer of pre-capitalist technology” (p. 53); while at the same time it is pointed out that industrialization incorporates new strata which benefit by it. From this process stem the negative consequences considered in the chapter.

The spurious absorption of the labour force makes its appearance primarily in government activities. It is necessary in order to achieve income redistribution under the conditions prevailing in this mode of production but at the same time it slows down the rate of capital accumulation. The problem arises here from its ambivalent character.

The growth of the ‘political and organizational power of the labour force’ improves the distribution of income and of the fruits of technological penetration up to a certain point; but the time soon comes when this same power, invoking ‘economism’, begins to act as a curb on accumulation and the growth of productivity and alters the distribution among the strata, not always in the fairest possible way. This is one of the interpre-

tations relating to the incompatibility between the exaltation of the consumer society and democratic development. For our part we would add that the consumerism of society reinforces economism in some strata, or, more precisely, among some leaders in these strata.

Representative democracy cannot arrest this trend; on the contrary, manoeuvring within its classic triangle, it strengthens economism, which inevitably sets up a barrier on the road to development.

It is perfectly true that the economy of peripheral capitalism lacks an automatic regulating mechanism. If, however, we follow the line of analysis pursued in the article under review, in accordance with Dr. Prebisch's ideas it would seem possible to create a mechanism of this kind that would be fairly well-balanced internally. Without at present discussing this possibility, or the limits to the operation of such a mechanism, and without cherishing illusions as to its effectiveness in all areas of development—particularly in the spheres affecting wage-earners—the following question may usefully be posed: What possibilities and means are there of utilizing it for the good of the most deprived strata during the arduous process of democratizing the running of the economy? I think it is necessary to study this aspect also of the problem relating to "Democratization of the running of the economy under peripheral capitalism": to study in depth not only the design and construction of such a mechanism, and the requisite conditions for its application, but also its organic limits.

In this same chapter consideration is given to democratization through the incorporation of new strata in the production process and in distribution; but why confine it to these two areas alone?

I believe that democratization must begin in economic and social development, in its planning and management. Democratization in distribution is a secondary or derived result; democratization of the use of the final product (in the sense of the production process of the whole society) should be anticipated and ensured by means of planning, through the application of the tax system, public investment, orientation of private investment, and other mechanisms and instruments. The market, with its law of value, its monetary-mercantile relations, its vast apparatus of incentives and prices, must be an object of democratization.

Chapter V deals with new factors that stimulate the democratization process. I feel that here the role of the whole broad range of the lower and middle strata is underestimated, notwithstanding their need of development theory, doctrine and programmes.

The entire analysis in this chapter is based on two particular premises which weaken it. In the first place, democratization is viewed in the context of outward-directed development conditions, and it is not noted that in well-planned inward-directed development with its 'implementation' assured, many of the problems referred to would not have arisen; for as reviewed here they are problems typical of peripheral capitalism when development is outward-directed. Secondly, peripheral capitalism is discussed without reference to the influence of State/monopoly capitalism. The latter has its ways of manoeuvring in the social area and its repercussions penetrate the peripheral-capitalism countries.

The article says that "peripheral capitalism is more inclined to sacrifice democratization in one way or another for the sake of defending and promoting the consumer society" (p. 59). Exalta-

tion of the consumer society, imitation of the centres, must logically culminate in new forms of subjection of the periphery to the centres. Hence it is essential to analyse what development theories and models could counteract this trend. The whole article leads up to this statement of the case, in which the problems of peripheral capitalism are synthesized.

The socialist countries are devoting more and more attention to the development and the problems of what are called the Third World countries; and in this connexion a number of national and international conferences have been held. Professor S.I. Titulpanov has proposed a new approach to the study of these countries. In his view, they occupy a specific place in the system of world economic and political relations: their distinctive mark is the level of economic development and the special features of the reproduction process; their socio-economic structure has peculiar characteristics of its own; and the time has come for political economy as a science to be divided into three parts, one concerned with socialism, another with contemporary capitalism, and a third with the developing countries (see S.I. Titulpanov, *Essays on political economy. The developing countries*, Moscow, 1969, Russian text, pp. 7-18).

The present-day development of the Third World countries is highly complicated. Some have already set out on the road to socialism and have started to create a new mode of production; others are looking in the direction of socialism and are beginning to take the first steps towards progressive and radical changes in their economy, social life, etc.; while the countries in the third group are so far continuing their development on the basis of the capitalist mode of production. In the countries in question the

socio-economic structure, the 'non-peaceful' co-existence of different modes of production, the particular features of the process of formation of the social strata and of political and economic power offer no guarantee of the stability of development along these paths. Since they tend to change their socio-economic and political orientation in the course of very short periods, scientists in the socialist world have aptly termed them transition-type countries.

Scientists in socialist countries also underline the fact that the developing countries still have reserves available for the development of capitalism and that bourgeois reformism has not yet been routed. A group of Soviet scientists, headed by the late V. L. Tiagunenkov (a corresponding member of the Academy of Sciences of the USSR), prepared a study of fundamental importance, entitled *Developing countries: regularities [or: conformity with objective laws. E.K.], trends, prospects* (Moscow, 1974, in Russian). This study opens up new avenues for research on developing countries.

Some scientists have devoted their attention to the idiosyncrasies of nationalism in developing countries. This many-sided phenomenon has certain positive features which can be turned to account in tackling development problems; although obviously it also has some that are negative, and can be utilized against the interests of the masses. Other groups are also carrying out studies on various areas of the developing countries' present-day evolution; one of the most recent, which is still in its initial stages, is on the management of the economy in these countries.

Specialists on Latin America in the socialist countries have put forward new ideas for the study of the region; since

the subject is a wide one, we shall touch upon only three of them here. The first is that in Latin America capitalism has reached a medium level of dependent development. The second, that reserves for this type of capitalism are not yet exhausted in the region. The third, that radical changes in the Latin American countries can be effected in different ways and take different forms.

To sum up, it should be noted that semi-developed dependent capitalism—which predominates in some of the developing countries and in Latin America—is passing through a specific crisis of its own, and at the same time is within the sphere of action of the general crisis of capitalism as a socio-economic and political system. Its own crisis is closer, which is the reason why solutions for its problems are being sought. In this respect the analysis of the peripheral capitalism crisis is very important.

Obviously, as a researcher, I am convinced that neither State/monopoly capitalism nor peripheral capitalism can solve the economic, social and political problems of these societies in democratic fashion, for the benefit of the masses. But this belief should not lead one to hold aloof from discussion and take no part in the analysis of capitalism in all its diverse forms. The analysis of Latin American development should include, *inter alia*, study of the following questions: What chances has peripheral capitalism of riding out its own crisis? What would help the Latin American countries to move towards economic independence, and place them in a more favourable position vis-à-vis the countries with State/monopoly capitalism? Or on what premises should the future of the Latin American countries be built up, and what economic mechanisms and institu-

tions could be useful to them in that future?

The theoretical analysis of peripheral capitalism is basically the scientific explanation of the process that is going on in the Latin American countries; in addition, they still need to work out their own development model, comprising the objectives, mechanisms and instruments within their reach and the motive forces of society, those that when the model is projected bring its mechanisms and instruments into operation. The need for such a model is becoming more urgent. Many years ago, on the basis of the peripheral economy theory, CEPAL prepared a development doctrine or model which, in spite of its limitations, is decidedly dynamic and, more important still, offers a system of ends, means, mechanisms and motive forces. In its formulation as a system that associates as links in a model both the ends pursued and the motive forces that must bring into operation the means and mechanisms to attain them, the greatest strength of the CEPAL doctrine lies.

The doctrine centres on the problems of developing the productive forces and on international, regional and sub-regional economic relations; questions relating to the institutions and mechanisms for managing the economy and for development financing, together with social problems, play a complementary role.

At the present time this doctrine, as a scientific phenomenon of practical significance, is confronted with a number of problems which ought to be studied. Some have arisen in the course of the practical implementation of the doctrine, and it is useful to note which of them are still under discussion. In our view, these scientific and practical prob-

lems include the following: inward-directed or outward-directed development; institutions, legislation, machinery for regulating the economy within the market-economy system under the conditions prevailing in developing countries; possibilities and means of resolving social development problems; rights and obligations in international economic relations and in the economic integration process; formulation of theoretical suggestions and practical projects for promoting and mobilizing domestic capital accumulation and channelling investment; utilization of foreign capital and transnational corporations in line with the national interest; export promotion; content and special features of the mentality of the Latin American entrepre-

neur; conduct and manageability of the economy in the Latin American countries. Clearly there are other problems, and those brought up here for discussion are only a selection.

Dr. Prebisch's new study on peripheral capitalism opens up wide possibilities for analysing the Latin American development problems referred to above, and other questions that represent the cornerstone of the thinking built up in Latin America –the peripheral economy theory. In working out new approaches to Latin America's development and designing institutions, instruments and mechanisms for resolving those problems on the basis of the peripheral capitalism theory, the CEPAL doctrine is consonant with the requirements of today.

*Comments by Octavio Rodríguez**

Introduction

1. Careful study of the article by Raúl Prebisch shows that it represents an endeavour to synthesize the basic ideas worked out by CEPAL in the early 1950s, together with others which subsequently germinated within CEPAL and outside it, on such topics as dependency, marginality, income concentration, patterns of consumption, the role of internal social groups, etc. Its primary objective is also clear: to achieve a global and integrated interpretation of the backward countries' development process, i.e., an interpretation covering not only

the economic phenomena and the changes in the structure of production peculiar to this process, but also the socio-political phenomena and the changes in the social and power structures which accompany and are inherent in it.

2. The ideas that had their origin in CEPAL were formulated gradually in the course of time, taking shape in various contributions in the field of economic theory and policy. Essentially, the orderly articulation of the comprehensive and complex reasoning embodied in the theoretical propositions pivots upon the analysis of three trends held to be characteristic of the long-term economic evolution of the periphery during the phase of import-substituting industrial-

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ization: namely, the deterioration of the terms of trade (which in its turn relates the differences in average labour productivity between periphery and centre with the disparities in average real income), external disequilibrium and structural unemployment.¹

The factors that help to account for the first of these trends include the disparity of the income-elasticities of demand for the exports and for the imports of the periphery, the disparity in respect of technological density between the several sectors composing this type of economy and between them and the corresponding sectors in the central economies, and the superabundance of labour. The second trend is also explained in relation to the disparity of elasticities, inasmuch as this is reflected in slow growth of the primary exports of the periphery and a rapid increase in demand for imports necessarily stemming from the installation and development of an industrial sector on the basis of primary-exporter specialization conditions. Lastly, the unemployment trend is imputed to such factors as the type of technology that has to be adopted, the slow pace of capital accumulation, the enormous growth of the labour force, and the displacement of manpower from technologically backward sectors whose relative productivity is very low.

¹It should be emphasized that while these three trends are, as stated in the text, the pivot of the reasoning contained in the various CEPAL contributions to economic theory, they must be distinguished from the contributions themselves, each of which uses different instruments of analysis, interconnected in complex fashion. The theoretical contributions which may be deemed of basic importance comprise the whole body of original ideas, or the conception of the centre-periphery system; the theory of the deterioration of the terms of trade (compounded, strictly speaking, of three

So condensed a summary as the foregoing indubitably runs the risk of inaccuracy. It is presented, however, with the limited aim of making clearer and more acceptable a point of view according to which the ideas generated by CEPAL and their subsequent analytical formulation are basically intended to bring under consideration an area of social life which might be designated, by virtue of the trends it is sought to explain and above all of the factors which play a part in that explanation, 'the sphere of production'. For, as can be seen, the factors in question include the changes that take place in the structure of demand, and more particularly in the structures of production and employment, during the industrialization of the periphery.

3. The "Critique of peripheral capitalism" gives priority, on the other hand, to what by contrast might be called "the sphere of distribution", i.e., it places the accent on the examination of trends in income distribution, approached with a view to linking up the CEPAL ideas and arguments and the types of analysis usually regarded as of a socio-political character. In other words, in the new attempt at a 'more than economic' interpretation of underdevelopment, the phenomena proper to the sphere of income

analytically distinct versions); and the interpretation of the industrialization process (made up of several partial theories, including one intended to explain external disequilibrium and another dealing with structural unemployment). These and other components of CEPAL thinking are briefly described in O. Rodríguez, "On the conception of the centre-periphery system", *CEPAL Review*, N° 3, first half of 1977. Some of them are examined in greater detail in O. Rodríguez, "Sobre el pensamiento de la CEPAL", ILPES, mimeographed text, Santiago, 1977.

distribution have been made the very hub of the analytical formulation, in order to elucidate, on the one hand, the existing interconnexions between such phenomena and the penetration of technique, the improvement of labour productivity, the level of employment, etc.; and, on the other hand, their interrelationships with changes in the social and power structures.

4. The following comments refer only to two major questions:

(i) How far the reasoning contained in the article integrates or coherently expounds the basic CEPAL contributions relating to the sphere of production. The paragraphs or groups of paragraphs corresponding to this first question are those numbered 5 to 10, in which we have emphasized employment problems, in an endeavour to show that, in our opinion, the discussion of them does not satisfactorily incorporate ideas which are of key importance in the original conception, in particular, the recognition of the structural heterogeneity peculiar to the peripheral condition;

(ii) How far the article's analysis of the sphere of distribution enriches CEPAL's contributions to the theory of underdevelopment, and especially how it furthers a global understanding of the phenomenon in question. This second aspect is dealt with in the paragraphs and groups of paragraphs numbered 11 to 18, in which we maintain that progress in the direction indicated is hindered, if not prevented, by flaws and limitations in the analysis of the sphere of production.

Similarly, and in so far as it helps to clarify our argument, we refer to the categories used in the study in the analysis of the two spheres, i.e., the

concepts of insufficient dynamism and of the surplus.

Sphere of production

5. The concept of insufficient dynamism used in the article constitutes in reality a variant, or more properly a 'complexification', of another similar concept existing in earlier documents. In the original version the aim was to define the sectoral and overall rates of capital accumulation –together with the technological penetration conditions implicit in them—required to provide employment for the labour supply (hypothetically homogeneous in quality) generated by the natural growth of the population, and, in addition, to reabsorb, at normal productivity levels, the manpower employed in sectors with low relative productivity. If such rates were attained, the structural heterogeneity peculiar to the periphery would then be gradually reduced, and eliminated altogether within a time horizon which would vary but would be definable in each case, so that in the long run productivity increments could be reflected in steady increases in real wages.

In the context of CEPAL thinking, employment problems were traditionally studied against a standard of reference of this type, i.e., by investigating the reasons why in the development of the periphery the conditions of 'sufficiency of dynamism' just summed up are not attained.²

The new concept too is defined by contrast with certain conditions of 'sufficiency of dynamism', which are now

²These conditions are described, for example, in R. Prebisch, *Towards a dynamic development policy for Latin America*, United Nations publication, Sales N°: 64.II.G.4, pp. 23-43.

associated with the sectoral and overall rates of capital accumulation required to ensure that, as technical progress produced its effects and penetrates into production, the labour force is gradually displaced and re-employed in successive higher-productivity 'layers of technology', in each of which a higher level of skill is required and higher wages are earned.³ This concept is more complex than the preceding idea, since it dismisses the assumption of homogeneity of the labour force and eliminates the over-simplified dichotomy between normal modern-productivity sectors and sectors where productivity is low, primitive or backward. But in our opinion, although the concept is more complex, it is less precise than the original version, since the links between the generation of new higher-productivity layers of technology and the variations in the skills of the labour force which are required and produced *pari passu* are established only in very general descriptive terms. Furthermore, this lack of precision means that the conditions required to do away with the heterogeneity of the peripheral structure of production have not been clearly defined; whereas they did appear in broad outline in the original concept.

6. The list of factors accounting for the insufficiency of dynamism includes the tempo of capital accumulation, the unsuitability of technology generated in the centres to the special conditions prevailing in the periphery, the growth rate of the labour force, the patterns of

³ See "A critique of peripheral capitalism" (hereinafter referred to as "Critique"), chapter II, section 4, and in particular paragraphs 1-6. The numbering of the paragraphs corresponds in this and other footnotes to the normal order of reading.

consumption associated with the concentration of income, the forms taken by investment (for example, its distribution between directly productive assets and construction) and, lastly, the distortions and inefficiency apparent in the training of the labour force.⁴

In the analysis proper, capital accumulation, technological change and the growth of the population and/or of the labour force are examined in connexion with one another,⁵ and the influence of the other factors on employment is then considered separately.⁶

7. The basic argument of the above-mentioned analysis can be summed up as follows. In the periphery full employment of the labour force demands a tremendous accumulation effort, very difficult to achieve, not only because the active population grows exceedingly fast, but also because of the capital-intensive character of the technology generated in the centres; for the greater the rate of increase of labour productivity which this type of technical progress brings in its train, the higher is the investment coefficient required in order to absorb the whole of the labour force.

The connexions between accumulation, technology and growth of the labour force are illustrated by the brief example to be found in the footnote on page 9, where it is assumed, on the one

⁴ "Critique", p. 27, paragraphs 1 and 3.

⁵ "Critique", chapter II, section 5, paragraphs 3-5, and section 6, paragraphs 1-11. The analysis mentioned refers to the rate of capital accumulation and/or to the investment coefficient 'necessary' or 'required' for full dynamic absorption of the labour supply. Hereinafter the rate and/or coefficient are indiscriminately termed 'accumulation effort'.

⁶ "Critique", chapter II, sections 5-9.

hand, that labour productivity increases at a high rate, or that the rate itself rises, and on the other hand, that the productivity of capital remains constant. If the latter stands at 1:3, and the former shows an annual increase of 5 per cent, to absorb a labour force that is growing at a rate of 2.5 per cent per period considered, an investment coefficient of about 22.5 per cent is required. If labour productivity were to rise by 6 instead of 5 per cent, the necessary investment would be still heavier: about 25.5 per cent of the product.

Thus, the analysis of insufficient dynamism contained in the article lays particular stress on demographic factors and inappropriateness of technology –taken as implying an inappropriate degree of capital density, and reflected in the high growth rate of labour productivity, i.e., 5 or 6 per cent–, as elements explanatory of the great accumulation effort ‘necessary’ or ‘required’ for full absorption.

8. We shall endeavour to show that these are not the only factors that should be taken into account in the analysis, and to suggest that they may well not be those of decisive importance in employment problems, or, to put it better, those that determine the immensity of the accumulation effort required.

If certain hypotheses accepted by CEPAL itself in its early documents are taken up again, it will make a significant difference to the results given in the foregoing example. According to these hypotheses, technical progress involves a gradual increase in the productivity of resources, but that of labour rises more than that of capital, so that capital density becomes progressively higher. If, then, the productivity of labour increases by 5 per cent, and that of capital,

instead of remaining constant, rises by 2 per cent, the investment coefficient required to ensure full absorption will not be 22.5 per cent, as in the example given in the article, but, in the initial period, when the productivity of capital is 1:3, only 16.5 per cent. Moreover, this coefficient will little by little decrease in the ensuing period.⁷ If labour productivity were to increase by 6 per cent, *ceteris paribus*, the necessary coefficient in the first period would be 19.5, not 25.5 per cent.

From this change in the results it can be seen that the investment coefficient is not linked only to the growth rates of the labour force and of labour productivity; besides being connected with other factors to be mentioned later, it is also related to the difference between the rates of increase of labour productivity and productivity of capital. The coefficient may therefore be greater or smaller, depending upon this difference; and for any given level of disparity, it will gradually be reduced through time, the pace increasing as the growth rate of productivity of capital rises.

The aim of the foregoing considerations is not to place the premises of the article in opposition to others considered more realistic, but merely to point out that the inappropriateness of the degree of capital density is not thoroughly examined in the ‘Critique’.⁸ Furthermore, however, the analysis of insuffi-

⁷The gradual decrease in the investment coefficient is illustrated by the example given in the appended table, part III, column 2. The description of the table will appear later.

⁸From a more general standpoint, it might be said that in the article the negative effect on employment produced by an increase in labour productivity is taken into account, but the positive impact that an improvement in the productivity of resources might have on accu-

cient dynamism overlooks the possible incompatibility between the scale on which the techniques are introduced and the dimensions of the peripheral markets: an incompatibility that reduces the productivity of capital in the proportion in which the capital stands idle. Nor does it take into account the structural heterogeneity characteristic of the periphery, which means that employment must be provided at normal productivity levels for the labour force coming from low-productivity sectors, both that generated by the natural growth of the population employed in them, and that displaced from them in consequence of the penetration of new techniques. If the concept of heterogeneity is by-passed, it becomes difficult to work into the analysis these peculiar and specific factors of the 'peripheral condition', whose incidence on employment problems seems to be of great importance.

9. Of the factors superimposed on the basic analysis in order to complete the explanation of insufficient dynamism, we will refer only to patterns of consumption.⁹ These are linked to the foregoing train of reasoning through the argument relating to the sphere of distribution, which is considered later on; but the general connexion between the two is clear enough. It is alleged that income is concentrated in social strata whose propensity to consumption is very high and which tend to imitate the consump-

mulation, and through this on employment, is disregarded. Although in very embryonic form, in the document "Sobre el pensamiento de la CEPAL", *op. cit.*, pp. 57-80, an attempt is made to reformulate the traditional CEPAL arguments on this subject.

⁹"Critique", chapter II, section 5, paragraphs 6 *et seq.*, and section 6, paragraphs 12-15.

tion patterns of the centres, to the detriment of capital accumulation. The high propensity is prejudicial to accumulation for obvious reasons; and the patterns of consumption undermine it because they increasingly include more efficient goods, whose production entails a higher capital density.

Everything seems to suggest that neither of these two questions can be satisfactorily cleared up without linking it more precisely to those which relate to the sphere of production. We will refer only to the second. (i) It is not evident that what are called in the article 'more efficient' goods always require a higher capital density, in comparison with other types of goods such as those for mass consumption (for example, some branches of the electronic industry, over against certain branches of the textile industry which are totally automatized). (ii) Nor is it clear that higher-density investment options are necessarily conducive to a lower level of employment, since some of them may correspond to activities where there are no problems of scale and/or to branches of industry whose installation does not give rise to displacements of manpower previously employed in low-productivity conditions. (iii) Even if it is assumed for present purposes that the composition of consumption and production which as a whole defines what has come to be called the 'consumer society' has a negative influence on employment, owing to the high capital density it implies, there are no signs that this influence is of real significance for absorption problems, in comparison with others which in practice carry much more weight and which are not discussed: for instance, that of the changes brought about in the production of simpler goods, and particularly in agricultural production.

10. The foregoing criticisms may be summed up in the statement that, in our opinion, the article under discussion does not contain a sufficiently comprehensive and rigorous analysis of the relations between accumulation, technology and employment. In particular, it does not incorporate into the analysis of the unemployment trend the concept of structural heterogeneity, which is an important, if not a decisive, factor in the specific employment problems of the peripheral economies. In turn, these shortcomings prevent the establishment of a satisfactory logical nexus between the basic analysis of employment and the arguments relating to patterns of consumption which are designed to complement it.

With regard to the other trends of which an explanation is attempted in several of CEPAL's theoretical contributions in the sphere of production—for example, the deterioration of the terms of trade and external disequilibrium—the article includes only general references, which in virtue of their very nature are not clearly and coherently linked up with the analyses of employment and income distribution. The character of the present notes itself makes it needless to dwell on them in detail here.

Sphere of distribution

11. With respect to the sphere of distribution, we have attempted to convey the basic aspects of the reasoning contained in the article¹⁰ through a simple example, which is summarized in the appended table. In the said table it is

¹⁰ "Critique", chapter II, sections 1 and 2 and chapter III.

assumed that the production function of a hypothetical economy is linear and based on two factors, labour (T) and capital (K); that the supply of the first of these increases at a rate of 2.5 per cent; and that the respective productivity growth rates (t) and (k) are 5 and 2 per cent. These assumptions fix the growth rate of the social product (P) at 7.625 per cent, a figure which in turn requires that capital should increase at an approximate rate of 5.5 per cent. Given the magnitude of these variables in an initial period, the above technical relations make it possible to calculate the values which will correspond to them in later periods, and which are noted in part I of the table.

Let it be assumed that real wages (s) remain constant.¹¹ As the example postulates full absorption of manpower, aggregate wages (S) will obviously increase at the same rate as the labour force ($\Delta S/S = 2.5$ per cent) and, since the rate of increase of the product is more rapid, the global growth rate of the income remaining—i.e., of the surplus (E)—will be higher than that of wages. This likewise implies that the wages/product ratio (S/P) will tend to decrease, and that the surplus/product ratio (E/P) will follow an upward trend, as can be seen in part II of the table.

12. The foregoing example illustrates a precise definition of the surplus—the *ex post* size of income from property¹²—

¹¹ For the sake of simplicity, in the example real wages are taken as equivalent to one unit of product.

¹² This definition is virtually equivalent to the following extract from the article under review: "The surplus comprises the profits of enterprises, the interest paid on capital, and amortization of fixed capital" ("Critique", p. 37, paragraph 1).

and also sheds light on the connexion between that concept and the expression 'appropriation of the fruits of technological progress', or the equivalent term 'appropriation of the fruits of higher productivity', a connexion which in the article is somewhat obscured by terminological inexactitudes.¹³ As shown in the appended table, the increase in the whole body of wages and in the real output which constitutes this is concomitant with and, broadly speaking, attributable to the increment in the labour force. On the other hand, the increase in the product that can be ascribed, although not quite accurately, to the increment in labour productivity may be said to take the form of the surplus, or, if preferred, to be appropriated in that guise. To look at the same argument from another angle, the constancy of average real wages is an indication that the increases in labour productivity and in the supply and productivity of other resources are converted solely into income from property.

The example discussed is an extreme case, since obviously technical progress may bring about increases in production compatible with a simultaneous rise in real wages and other income. Hence the inference is that the surplus is not equivalent to the fruits of technological progress and/or to increments in productivity, as is sometimes suggested by the terminological inexactitudes referred to above, but is formed inasmuch and in so far as these factors allow income from property to be increased. Another point needing to be made clear is that in each production period the surplus should be regarded as constituted by *the whole* of

this income, and not only by the *increase* in it.

13. The article places a great deal of emphasis on the non-existence of any economic law governing the functional distribution of income, after the fashion of those formulated in classical and neoclassical economics. Only personal distribution is discussed, on the basis of a definition of three income strata, and it is assumed that there is a general tendency towards concentration, which may take place to a greater or lesser extent, depending upon the interplay of economic, social and political factors. At the same time, however, it is recognized that an economic mechanism does exist which makes it possible to appropriate the fruits of technological progress through the increase in the surplus, or, in other words, which allows increases in productivity to be converted into income from property.

With respect to this mechanism, the central idea seems to be that the continuing increase in the money supply, to which recourse is had as a means of financing the costs of an expanding production which is undertaken for sale in the future, with a certain time-lag, generates a demand that is excessive in relation to the smaller output produced in the past, which also enters the market with a similar time-lag. The consequent rise in prices makes it possible in principle for the increases in productivity which accompany those in production to be wholly or partly converted into increments in income from property. If, for example, production in period 2 in the appended table were to be effected with an amount of money exceeding the figure for the preceding period by $115.8/117.6 - 1 = 7.6$ per cent, the overall level of prices in period 1 could be

¹³ For an example of these inexactitudes, see "Critique", p. 13, paragraph 5; p. 36, paragraph 1; p. 37, paragraph 2.

raised by an equivalent percentage; and that in turn would enable the distribution of income to be altered in such a way as to reduce the proportion absorbed by wages from one-half to 47.6 per cent, and correlatively increase the share of the surplus.

The present comments do not cover this argument since it seems to us incomplete. What is important to stress is that when it is examined in the article, the reader is led to confuse the surplus demand to which reference has just been made with the concept of the surplus previously defined.¹⁴

14. The same example may serve to indicate the type of relation that is established between income concentration and patterns of consumption. Part III of the appended table shows that the whole body of wages, which hypothetically is spent entirely on the purchase of simple goods, constitutes a decreasing proportion of the product. As the rate of investment (I) follows a downward trend, and therefore the percentage of the product represented by total consumption (C) rises, the consumption of those who receive income from property (C_E) will necessarily form an increasing proportion of the product, and also of total consumption. The fulfilment of this condition probably means that the consumption patterns paid for out of the surplus must be gradually diversified and made more complex, so as to prevent an insufficiency of demand from hindering the continuity of growth.

In this way, although again somewhat over-simplified, the idea emerges that the tendency towards income con-

centration will be accompanied by the imitation of the consumption patterns of the great centres, which in its turn is based on the inequity of income distribution.

15. In the foregoing comments we have attempted to demarcate three aspects of the argument relating to the sphere of distribution: the analytical category used in this reasoning, i.e., the concept of the surplus; the analysis proper, or in other words, the ideal representation of the economic mechanism whereby a part of the fruits of technological progress is appropriated in the form of a surplus; and the long-term phenomenon which it is sought to explain, that is, the tendency to income concentration, together with the associated trend in the sphere of consumption. Even without having paused to examine the second of these aspects in detail, it may feasibly be asked how far the general line of reasoning—the preeminence given to phenomena in the sphere of distribution, and the emphasis placed on the need for a more than merely economic approach to explain them—constitutes a satisfactory road towards enrichment of the theory of under-development. The remaining comments refer to this question.

16. The first reservation to be made with respect to an orientation of this type concerns the universality attributed to the above-mentioned phenomena. Particularly well suited to clarify our point of view is a passage by Celso Furtado in which he says that the existence of a ruling class which imitated the consumption patterns of countries with a much higher level of capital accumulation, and which was impregnated with a culture whose motive force was constituted by technical progress,

¹⁴See, for example, "Critique", p. 36, paragraph 6 and p. 39, paragraph 2.

thus became a basic factor in the evolution of the peripheral countries . . . He then points out how the fact to which he alludes –and of which it would not be difficult to find historical testimony– plainly shows that in the study of under-development there are no grounds for giving priority to the analysis at the level of production, and relegating circulation problems to a secondary level . . . To grasp the nature of under-development, as from its historical origins, it is indispensable to focus attention simultaneously on the production process (re-allocation of resources which give rise to an additional surplus, and the way in which this surplus is appropriated) and the circulation process (use of the surplus linked to the adoption of new consumption patterns copied from countries where the level of capital accumulation is much higher), which in conjunction engender the cultural dependence that underlies the process of reproduction of the corresponding social structures.¹⁵

In the passage referred to above, as in the article under discussion, a point of view that has gained currency in recent years is adopted: the idea that the consumption patterns (and the appropriation of the surplus which sustains them) are general characteristics of under-development, and a basic condition of the evolution of economies of this type, in the same way and with the same significance as those trends in the sphere of production to which special importance is attached in the original CEPAL conception.

This view, which has also been winning adherents, may possibly be a

¹⁵ C. Furtado, *O Mito do Desenvolvimento Econômico*, Rio de Janeiro, Ed. Paz e Terra, 1974, p. 80.

generalization from the recent experience of some Latin American economies, whose great dynamism has been associated with what would seem to be an increasingly inequitable distribution. At all events, there does not appear to be evidence of such trends in all cases of underdevelopment, at all times and everywhere, or even in all the industrialization experiences of underdeveloped economies. It is worth while to recall, for example, the differences between the distribution and consumption patterns which accompanied industrialization in Argentina in the decade following the Second World War, and those prevailing during the past decade in the major economies of the Latin American region.

17. Unquestionably, the analysis of a specific economy from the standpoint of distribution and consumption may be of great value for elucidating the overall characteristics of its operation and of its long-term evolution, as well as for the formulation of economic policy in these two spheres, or even for the designing of development policy. Similarly, the analysis of distribution is not relevant only for applied economics or for economic policy; it is also pertinent to theoretical economics, since in broadening the field covered and bringing into prominence aspects of social life which would otherwise remain out of sight, it relates them more precisely to the rest, with beneficial effects on the degree of coherence of the theory as a whole.

With this proviso, we would make a second reservation, with reference to the priority accorded and the paramount importance attached to the analysis of the distribution sphere. The procedure which seems to us inappropriate, and which is also becoming habitual of late, consists basically in drawing up certain

hypotheses, with a semblance of generality, on the patterns of personal income distribution and of consumption, and then seeking to discover their causes, by examining the contradictions and incongruities manifested in the sphere of production. In other words, the aim pursued is to restructure the overall analysis of underdevelopment, including the various partial analyses concerned with the sphere of production, by articulating them in relation to the analysis of distribution, which in its turn is grounded on specific hypotheses of dubious general validity.

Setting aside the validity of the hypotheses, and also the methodological problems which such a proceeding involves, to follow it leads in practice, in our opinion, to an obstacle hard to overcome, namely, the incompleteness of the analysis of the sphere of production itself. In this context, the basic CEPAL contributions include several theoretical studies which seek to give an account of the trend towards a deterioration in the terms of trade and of its significance, and an interpretation of the industrialization process which explains the tendencies towards external disequilibrium and structural unemployment, by means of two partial theories. These different theoretical contributions are linked together only at the level of general concepts, that is, on the plane of the most abstract ideas relating to the characteristics of the centre-periphery system. Hence their precise logical articulation would appear to be a prerequisite for connecting them up with the analysis of the sphere of distribution, and maintaining the coherence of the whole.

18. The third reservation relates to the possibility of achieving a more than

merely economic interpretation of the development process through the analysis of the sphere of distribution. We would venture to imply it by contrast with the purely embryonic view outlined below, which also concerns the method of approximating to this type of approach.

In CEPAL's various theoretical propositions relating to peripheral industrialization, the three trends referred to above are explained, in the last analysis, by disproportions occurring between the amounts and/or growth rates of production, and/or of the utilization of resources from the various internal and/or external sectors (peripheral and/or central). Although this generalization cannot be demonstrated here, it can at least be clarified a little, to which end it may be briefly exemplified in the explanation of the trend towards external disequilibrium.

CEPAL analyses this trend in tacit contrast with a theoretical standard of reference, which establishes the conditions that should be met in order to keep the trade balance stabilized during the import-substituting industrialization process. Given certain assumptions as to the growth of the centres and of the primary-exporter sector of the periphery, it is supposed that the expansion of the sectors producing for the domestic market can be effected in such a way that complementarity between their products, combined with a change in the composition of imports—the opportune reduction of some of them so that the import requirements of the branches in process of expansion can be met—, permits the maintenance of external equilibrium. The trend towards disequilibrium is explained by contrast with this standard of reference. It is alleged that import-substituting industry itself, as its

production gradually evolves from simpler to more complex goods, generates huge import requirements, which tend to exceed the limits imposed by the slow growth of exports and by exhaustion of the possibilities of restricting non-essential imports. In other words, the changes in the structure of production by which industrialization is characterized, and the changes in the composition of imports by which it is accompanied, do not in practice occur in accordance with the conditions of proportionality necessary to preserve equilibrium. Disequilibrium is ultimately traceable, therefore, to *disproportions* between the growth rates of the various peripheral sectors and/or between them and the growth rates of the centres.

It was asserted above that the logical articulation of CEPAL's various theoretical contributions has not yet been satisfactorily achieved. Perhaps these previous assertions contain the germ of an idea as to how an improvement may be attempted: by endeavouring to establish the sectoral growth rates that should be attained if the "laws of proportionality" formulated in the said contributions by means of partial analyses are to be complied with simultaneously and in relation to one another. Thus, for example, although serious analytical difficulties might perhaps be involved, it is possible in principle to define the conditions and/or sectoral growth rates required on the one hand to ensure the preservation of external equilibrium, and on the other to eliminate structural heterogeneity, i.e., to achieve the gradual reabsorption of the entire labour force in branches and at levels of normal productivity, within a definite period of time.

Very broadly speaking, then, it may be affirmed that the rearticulation of CEPAL's basic analyses would call for

the establishment of an ideal standard of overall and sectoral growth, so designed as to prevent the emergence of the trends characterizing peripheral development –deterioration of the terms of trade, external disequilibrium, unemployment–; and such that the conditions of disproportionality underlying those trends could be judged by contrast with it. But clearly, in addition its description of the growth of production of goods would be so complex that a prerequisite for establishing it on coherent lines is to define the sectoral and global conditions in respect of capital accumulation and penetration of technology that would guarantee proportional growth, and would thus preclude the appearance of the aforesaid disequilibria and undesirable trends. To attain this end, however, it is sufficient to determine the accumulation conditions 'necessary' or 'required' for the several proportionality relations to be simultaneously produced; and these conditions do not constitute a replica of the spontaneous accumulation process, that is, of the accumulation process as it conceivably may derive from the behaviour of specific economic agents upon whose decisions it depends.

Let us again resort to an illustrative example. We may imagine an inter-sectoral distribution of investment, associated with certain technological options, whereby unemployment becomes avoidable within a given length of time, and labour productivity gradually climbs to the levels prevailing in the central countries: a distribution which likewise contemplates simultaneous increases in installed capacity in the exporter sector and in each and all of the sectors producing for the home market, as well as changes in the composition of imports capable in the aggregate of preventing external disequilibrium. But

this ideal model of 'required' accumulation will not afford an explanation of why in practice accumulation has occurred at specific rates in the economy as a whole or in the different sectors; in other words, such a paradigm does not disclose the reasons for which actually a pattern of accumulation was followed that gave rise to unemployment and external disequilibrium.

It would seem essential, in order to attain an overall vision of underdevelopment, not only to rearticulate CEPAL's analyses of the trends that characterize it, but also to try to detect the basic causes of these trends, by attempting an analysis of the driving forces behind accumulation, and of the way in which they determine its rate and patterns. What are the grounds for this opinion? The CEPAL analyses deal with the sphere of production, but in essence they establish relations of proportionality only between the sectors of physical production; their rearticulation would entail elucidating and defining the conditions of accumulation 'required' to ensure that the several proportionality relations were simultaneously fulfilled. On the other hand, to attempt a representation of the spontaneous accumulation process, while at the same time seeking the causes underlying the sectoral disproportions in growth, implies investigating the social relations that are established in the sphere of production, i.e., the basic economic relationships evolving in connexion with the generation, appropriation and utilization of the economic surplus. A point worth clarifying is that these relations are not only internal, but external too, and that the latter comprise not only those formed through commerce and expressed in the deterioration of the terms of trade, but also all those involving foreign capital, in the broadest sense of the words.

Lastly, we come to consider the limitations of the analysis of the sphere of distribution as regards achieving a more than merely economic interpretation of underdevelopment. At first sight, it might seem that such an analysis is simply the reverse of the one just expounded, and that the path it offers is easier and quicker, inasmuch as personal income distribution is visibly influenced, and continually altered, by non-economic social relations, and in particular by redefinitions in respect of power relations. There are reasons for thinking, however, that the theoretical speculations which follow this road, although they may achieve significant partial results, are not conducive to the desired type of global approach.

The most important of these reasons consists in the lack of an adequate analysis of basic economic relations, which are the most general and the most permanent, and form the framework that conditions the more particular and contingent relations established in the sphere of distribution. It is not hard to see that this consideration implicitly underlies the reservations stated in the two preceding paragraphs. For precisely owing to that lack, when the sphere of distribution is taken as at once the starting-point and the axis of the intended global analysis of underdevelopment, in the face of marked variations in distribution, and/or very striking developments in the socio-political sphere, there is a tendency to place the accent on a set of new hypotheses, of dubious universality and constancy. Similarly, again because of the same lack, these hypotheses are commonly articulated by means of a socio-political analysis, which is not integrated with the economic analysis, but is super-added to separate parts of it, introduced *ad hoc* as the argument develops.

ANNEX

I. Technical relations

| <i>Variables</i> <i>Periods</i> | t | T | k | K | P |
|------------------------------------|-------|-------|-------|-------|-------|
| 0 | 2 | 50 | 0.333 | 300 | 100 |
| 1 | 2.1 | 51.25 | 0.34 | 316.5 | 107.6 |
| 2 | 2.205 | 52.53 | 0.347 | 334.0 | 115.8 |
| 3 | | | | 352.4 | |

II. Distribution

| <i>Variables</i> <i>Periods</i> | s | S | $\frac{\Delta S/S}{x 100}$ | E | $\frac{\Delta E/E}{x 100}$ | $\frac{S/P}{x 100}$ | $\frac{E/P}{x 100}$ |
|------------------------------------|---|-------|----------------------------|-------|----------------------------|---------------------|---------------------|
| 0 | 1 | 50 | — | 50 | — | 50 | 50 |
| 1 | 1 | 51.25 | 2.5 | 56.38 | 12.75 | 47.62 | 52.38 |
| 2 | 1 | 52.53 | 2.5 | 63.30 | 12.28 | 45.35 | 54.65 |

III. Investment and consumption

| <i>Variables</i> <i>Periods</i> | I/P x 100 | C/P x 100 | $\frac{C_E/P}{x 100}$ | $\frac{C_E/C}{x 100}$ |
|------------------------------------|--------------|--------------|-----------------------|-----------------------|
| 0 | 16.54 | — | — | — |
| 1 | 16.22 | 83.78 | 36.16 | 30.30 |
| 2 | 15.90 | 84.10 | 38.75 | 32.59 |

Notes: The variables are defined in the text. It is tacitly assumed that gross investment is equal to net investment, and that it matures with a time-lag of one period.

*Comments by Marshall Wolfe**

The following comments centre on certain important political and social propositions in Dr. Prebisch's critique of peripheral capitalism, leaving to those better qualified the discussion of his economic explanations. Restated in simplified terms these propositions are:

1. The distribution of wealth and incomes in peripheral societies derives not from market forces but from the initial distribution of power. Peripheral capitalist development enables the powerful few to continue to concentrate the lion's share of its fruits in their own hands;

2. The distribution of power also determines the distribution of opportunities to acquire the formal qualifications or 'training' for entering into the managerial, technical and bureaucratic positions required by the style of development. Once the rate of expansion of the resulting 'intermediate strata' exceeds the expansion of real demand for their services, the share of power that determined the acquisition of qualifications also requires the 'spurious absorption' of the possessors into favoured areas of employment. At lower levels of skills and incomes within the activities generated by development similar processes are at work. The distribution of power and the sluggish labour-absorptive capacity of these activities guarantee that the initially poor and weak will remain excluded;

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3. The distribution of power and of incomes generates the 'consumer society' in its present concentrated, wasteful, and imitative form. It also influences the patterns of introduction of technologies and the failure to generate technologies better adapted to the conditions of the peripheral countries;

4. The consumer society for stratified minorities is incompatible with achievement of a sufficient rate of accumulation to permit eventual absorption of the marginalized masses into productive, well-paid employment;

5. While peripheral capitalist development permits broadening of the minorities able to participate in the consumer society, and indeed needs this for its own functioning, it cannot do so beyond a certain point, owing to insufficient dynamism and the insatiable appetites of the groups already participating. To the extent that the excluded groups, now condemned to 'infraconsumption', gain in ability to use organization and democratic political processes to force an entry, either inflation accelerates, or the power-holders replace formal democracy by the use of force, or both;

6. Peripheral capitalism is imitative rather than innovative in the manner of central capitalism, divorced from societal needs and resource endowments, incapable of overcoming its internal contradictions except through repression. Its evolution under the hegemony of the world centres stunts the development of the

entrepreneurial class and discourages it from struggling against these shortcomings.

These propositions, from the way they are stated, clearly have a normative purpose. They point to trends that are self-evidently unacceptable, whether in terms of democratic values, of human welfare, of national autonomy, or of progress toward self-sustaining economic growth. It follows that men of good will must diligently seek means of changing them. Certain questions then come to the fore: If the diagnosis is correct in the central role it gives to power, where can one identify plausible agents of transformation? If transformation is feasible, how profound and traumatic need it be? In other terms, to whom is the study addressed and what does it expect the addressees to do? Can the ills be overcome through reforms in the prevailing style of development, or do ills so great call for an entirely different *system*?¹ Evidently Dr. Prebisch's long experience has left him very much aware of the complexity of these issues, the dangers of over-simplified superficially radical prescriptions, and the probability that the future has surprises in store for us. Thus he limits himself to a few discreet hints on what can be done and by whom.

However, the increasingly disturbing evidence that peripheral capitalist development has led the Latin American national societies into a trap from which

they will be able to emerge only at very high social costs of one kind or another, pushes one on to the dangerous ground of thinking about alternative agents to whom a study posing a radical challenge to the prevailing style of development can be addressed.

The arguments might be addressed to the *present power-holders* within the peripheral capitalist societies, but why should they be persuaded by arguments against a system that works in their favour? Two lines of persuasion have been current since the 1950s or earlier: (a) that the prevailing style of development is incompatible with professed democratic and human welfare values; (b) that it will not be viable over the long term, so that the power-holders must reform it in the interest of their own survival. However, the spokesmen of the power-holders obviously have no difficulty in reinterpreting democratic values to justify whatever tactics they find necessary, and they are obviously not convinced by the second line of reasoning; they can argue in return that the main threat to viability of the style is governmental reformist interference with its logic. In other terms, the tactic dictated by their own perceived interest is that of "changing just enough so that nothing will change". During recent years, entrepreneurial groups have emerged in most countries that identify aggressively with the prevailing style, consider its impact on the poor mainly a problem for the police, and justify their ideology by the unsatisfactory performance of reformist and populist régimes in Latin America and elsewhere.

The *intermediate strata* that have a lesser and possibly illusory share in power are hardly more open to arguments on the need for transformation of the style of development, except to the extent

¹ Reforms in style would presumably retain central features of capitalism, whether or not accepting the label, with better planned and more decisive state intervention to redress the internal and external balance of power. The articles by J. Graciarena and A. Pinto in the same issue of the *CEPAL Review* discuss the distinction between *style* and *system*.

that they interpret the transformation as a means of enhancing their own relative position. At this level reactions can be expected to be more contradictory and ambivalent than at the level of the major power-holders, in view of the shocks that present crises are dealing parts of the intermediate strata and the increasing strain on the capacity of the system to meet their expectations through privileged education and 'spurious absorption', but their main reaction is defensive against any threat of a narrowing of the gap between them and the excluded masses.

Again, the arguments might be addressed to the *technobureaucracies* that have been gaining in experience and self-confidence; within the CEPAL tradition of training of economic planners this is the most accessible kind of agent. Conceivably part of the state apparatus, convinced of the need for transformation, might act autonomously, consolidating power and using it to redistribute income, curb the consumer society, and raise the rate of accumulation. However, experiences of this kind up to the present hardly justify confidence; technobureaucracies, whether military or civilian, commonly exaggerate their own understanding of the societies on which they try to act and their power over them. If they alienate the power-holding élite or the intermediate strata, the consequences are likely to be more than they can handle; they cannot afford to mobilize the masses, however much they may talk of popular participation; and without such mobilization the constraints imposed by the world centres linked to the domestic power-holders sooner or later bring them to an impasse. Moreover, an increasing proportion of the technobureaucrats seem to be ideologically identified with the entrepreneurs mentioned above.

Then, too, the arguments might be addressed to *actual or potential power-holders* in the central countries. This way out becomes tempting, in spite of a certain incongruity with the objective of enhancing national autonomy, if one concludes that the power-holders in the periphery will neither be displaced nor mend their ways in the absence of a shift in the patterns of dependency and the external stimuli continually strengthening the consumer society. It becomes more tempting in so far as one questions the supposition that the centres have coherent 'imperialist' policies toward the periphery. If, as a good many social scientists in the centres now argue, central policies toward the periphery really represent an internally contradictory aggregate of 'bureaucratic politics' of public agencies pursuing their own purposes in alliance with different clientèles and pressure groups, and if the most influential counterattacks on the excesses of the consumer society and the concentration of economic power are now visible in the centres, it should be possible to find allies there to redress the balance of power in the periphery. It is well known that the dominant forces in some of the smaller central countries now advocate for the Third World styles of development quite similar to those implied by Dr. Prebisch's critique of peripheral capitalism, an advocacy that leaves them with few deserving candidates for assistance. In a more restrained way, the heads of international financing agencies are now urging similar changes in priorities in the Third World. The United States is likely to become more open to a reformist approach of this kind than it has been since the early 1960s. These shifts in attitudes in the centres leave most of the Latin American countries seeking external aid in a trebly

vulnerable position, because of their levels of per capita income well above the Third World average, because of the notoriously uneven distribution of incomes and consumption, and because of the power-holders' reliance on repression to protect the distribution of income and the sources of dynamism of the prevailing style. In one way or another, external evaluations of the prevailing style of development have to be taken into account in the calculations of the peripheral power-holders. The changing nature, real objectives and capabilities of the interlocutors in centre and periphery deserve careful study to enable the quest for alternative styles of development to go beyond the ritual proliferation of 'world plans of action' and 'new economic orders'. The experience of the Alliance for Progress demonstrates the precariousness and ambiguity of reform policies advanced by the centre, partly under the influence of reformers of the periphery, and formally accepted by national power-holders as a condition for external aid.

Lastly, the arguments might be addressed to *counter-élites* aspiring to mobilize the social classes exploited or excluded within the peripheral capitalist style of development and to take power in their name. (It can be assumed that the marginalized masses themselves will not be readers of the *CEPAL Review*.) Such counter-élites have been on the stage for some time, and would readily accept the causative relationship between power, income distribution, the consumer society, and insufficient accumulation. However, they would not and probably could not limit their remedies to the construction of capitalism with a human face. The study touches very lightly on the fact that an important part of the political leadership of the lower

and middle strata has rejected the peripheral capitalist rules of the game and feels no responsibility for making anything like the prevailing style of development work better. In other terms, they opt for a change of system. These political currents have not, except in Cuba, been strong enough to impose an alternative system, and as Dr. Prebisch hints in his last paragraph their ideas of how to get power and what to do with it are not as clear as they might be. At the least, they are strong enough for their rejection of the prevailing style to make the distributive struggle more intransigent.

In the end they face much the same problem as does Dr. Prebisch: How can an unacceptable and possibly non-viable economic-social-political system be transformed in the face of large minorities, constituting the most articulate and organized strata of the population, that are intransigently unwilling to give up the advantages they now enjoy or hope to enjoy; a transformation that would have to be carried out by other minorities, themselves deeply divided over strategies and values, with the support of disadvantaged masses having a weak capacity for disciplined action? The admiration for the Chinese model shown both by the moderate critics of the peripheral-capitalist consumer society and by its anti-capitalist enemies is symptomatic of their tactical difficulty. If one could only start with a frugal, hardworking, innovative, egalitarian population innocent of aspirations for automobiles, television, and vacations abroad, confronting a handful of oppressors!

The question of power thus leads to the question of values. If any conceivable social agents set out to transform the structure of power that determines

the distribution of incomes, will they be able simultaneously to inculcate values that are compatible with a relatively egalitarian and austere standard of consumption and a higher rate of accumulation? It is just as hard to imagine the masses now excluded, once they have a taste of power, voluntarily moderating their demands to the planners' judgment of what can be afforded. It is even hard to imagine the technobureaucracies or counter-élites setting an example of austerity and efficiency in the use of public resources, without which their exhortation to other elements in the society will carry little weight. The fate of national attempts to modify the prevailing style of development while "democratizing" the consumer society is too well known to require further comment. The point made by Aníbal Pinto in his "Notes on styles of development in Latin America", that the masses in any kind of country would vote for the consumer society if given the choice, and that its condemnation is limited to certain intellectual minorities, is quite valid, but does not negate the probability that the masses would be voting for a paradise that can be real only as long as they are excluded from it.

At present, the life-styles of all strata of the societies in the periphery as well as the centre, with the probable exception of very small élite minorities, are undergoing shocks that may well become even more frequent and intense in the future. Large intermediate strata are unable to maintain their previous levels of consumption, and the practicability of their aspirations for their own and their children's future comes under question. The shocks might be educational, but who is to teach the lesson? One might envisage a gradual change in values centering in the youth, stimulated by

societal crises but channelled by innovative forms of education and the generation of alternatives more attractive than the consumer society, but who is to transform the education and offer the alternatives? Some recent experiences indicate that within stratified and competitive societies proposals to change educational content and objectives in the direction of contributions to productivity, social equality and service to the underprivileged strata of the society excite more unmanageable resistance than do policies freezing the quantity of 'training' for the higher posts and tightening the selectivity of admission to such training.

In certain cases, a radically different style or system of development can be facilitated through export of the more recalcitrant parts of the intermediate strata to more congenial climes, at the price of appreciable short-term losses in professional and technical manpower, as in the case of Cuba; but the size of the intermediate strata in the larger Latin American countries makes this 'solution' improbable. For the most part, the beneficiaries of the consumer society are in a better position to expel its critics. The future of the consumer society in Latin America seems permanently precarious and also repellent in its beneficiaries' complacent acceptance of the price in terms of poverty, powerlessness and repression for others. However, one cannot altogether blame these beneficiaries for believing that, for them, any remedy will be worse than the disease, and that for the rest of the society the gains will be problematic.

In conclusion, it seems worth while to touch hesitantly on one central economic proposition in the "Critique of peripheral capitalism". This study, like previous works of Dr. Prebisch, contin-

ually emphasizes the need for achievement of higher *rates* of capital accumulation. The negative evaluation of the consumer society and the pattern of industrialization that has shaped it and been shaped by it in a process of circular causation suggests that just as much emphasis should be placed on the *kind* of accumulation. Accumulation of what for what? If it is true that a high proportion of present capital accumulation simply helps to consolidate the consumer society and strengthen the case for its irreversible perpetuation (e.g., urban construction of luxury housing and office buildings; automobile manufacture and its linkages to highways, urban land occupation and infrastructure, maintenance and fuel supply networks), does it not follow that the

aggregate rate of accumulation contains components that are irrelevant and components that are negative as well as components that are positive from the standpoint of eventual achievement of adequate livelihoods and meaningful activities for the whole population? If one really judges that the present consumer society is permanently inaccessible to the masses of the population and maintainable only at their expense, does it not follow that rates of accumulation as now calculated cannot legitimately be presented as objectives? In this area, a non-economist quickly gets out of his depth, but it would seem that a systematic demystification of accumulation rates and economic growth rates may be needed as a component of the critique of peripheral capitalism and its version of the consumer society.

Some CEPAL publications

International development strategy and development of a New International Economic Order. Third regional appraisal. Guatemala, 1977. Cuadernos de la CEPAL series, N° 17, Santiago, Chile, 1977, 59 pages.

The United Nations General Assembly proclaimed the 1970s as the Second Development Decade and approved an International Strategy with the object of providing guidelines for progress achieved is made every two years; in the process achieved is made every two years; in the case of Latin America, it is included in the proceedings of the biennial sessions of CEPAL. The first was presented at Quito (Ecuador) in 1973; the second at Chaguaramas (Trinidad and Tobago) in 1975; and the third at Guatemala City in 1977. The first two were reproduced in Cuaderno N° 2, while the third is published in N° 17.

The text appearing in the last-named Cuaderno is that approved by the government representatives on the basis of documents prepared by the CEPAL secretariat. It is divided into four parts. The first of these deals on general lines with the region's economic and social development problems; the second and third refer to Latin America's external economic relations and to questions connected with inter-Latin American integration and cooperation; while the fourth part sketches the outlines of a plan of action, particularly concerned with these last issues. The Cuaderno ends with the declarations and statements presented by several countries with respect to the Appraisal.

Raíces históricas de las estructuras distributivas de América Latina, by Armando Di Filippo, Cuadernos de la CEPAL series, N° 18, Santiago, Chile, 1977, 64 pages.

The object of this paper is to identify the basic factors which over the long term have significantly influenced the formation of Latin America's distribution structures.

In view of the special development conditions prevailing in the region, the analysis had to look far into the past to elucidate certain structural features of long-standing importance, which have their origin both in the pre-Colombian heritage and in the phases of conquest and colonization of Latin America.

Starting with this frame of reference, a study in depth is made of the distribution structure of the Latin American economies when they were incorporated in the periphery of the system of international economic relations over which the United Kingdom exercised hegemony. Thus, on the basis of a well-known typology of export economies, their characteristic patterns of technical progress are sketched out, together with the effects of these on distribution.

With the aim of illustrating these special features, the study gives a brief account of the distributive repercussions which were produced by the establishment of certain export complexes in various Latin American countries, and which seem to have depended essentially on their capacity to break up feudal-type labour systems, inherited from colonial times, that still persist in vast rural areas of Latin America.

Finally, some hypothetical interpretations are advanced with respect to the basic mechanisms through which these export economies may have directly or indirectly influenced the formation of major urban centres, and to the impact of this phenomenon on distribution. The analysis deals in particular with those Latin American societies where urbanization and industrialization began at a comparatively early date, and where the distribution situation seems to have been more favourable.

United States — Latin American Trade and Financial Relations: Some Policy Recommendations, by Sidney Weintraub, Cuadernos de la CEPAL series, Santiago, Chile, 1977, 44 pages (in English only).

The author of this study, who is a distinguished figure in academic circles in the United States, wrote it at the special request of the CEPAL secretariat, and its object is to make some suggestions to the Latin American countries regarding the orientation of their trade and financial policies vis-à-vis the United States. He analyses the views and expectations of both parties concerning some particularly conflictive aspects of their trade and financial relations, and on that basis determines the direction and the measure in which the United States' position could, in his opinion, be modified in those areas.

In the field of trade, he believes that Latin America could obtain some successful results through pressure for a greater liberalization of the United States' trade policy, which might find expression, for example, in changes in the use of export subsidies, a progressive reduction of protectionism, etc. As regards financial relations, he maintains that Latin America's top priority is access to capital, either through international financing institutions or through the capital market. Given this objective, he considers it possible to secure a favourable modification of the Monetary Fund's policy with respect to financial facilities for coping with balance-of-payments problems, and a more flexible attitude on the part of the United States to the refinancing of external debts and the elimination of coercive features in aid programmes.

He contends that there are some areas where Latin America's efforts to modify United States policy are almost certainly doomed to failure, one of his reasons being that he considers our region as the middle class of the developing countries. In his view, the United States will not support initiatives aimed at establishing producers' associations that will attempt to raise the prices of basic commodities, obtaining a large-scale increase in United States official aid to Latin America, prematurely restructuring the region's industry, etc. At all events, he asserts that the recent change of government in the United States heralds an era of greater openness to Latin America, and thus an opportunity to bring about some substantial changes in their economic relations.

Cooperación internacional en el ámbito de los productos básicos agrícolas: convenios sobre productos y asociaciones de productores, by Edwin Marchán, E/CEPAL/1044, mimeographed text, Santiago, Chile, 1977, 83 pages.

In principle, the chief object of this document is to examine the position with respect to international agreements on agricultural commodities. These agreements are primarily and traditionally assigned the function of stabilizing prices and moderating excessive price fluctuations. A broader and more penetrating view, however, associates them with the conception of a policy linked to the redistribution of the world's wealth. It is therefore highly meaning-

ful to deal with this subject, since under the Integrated Programme proposed by UNCTAD, at least 17 commodities—representing, if petroleum is excluded, 76 per cent of the developing countries' exports—require some kind of international arrangement of such a nature.

The second aim of the study is to discuss a formula of co-operation much in vogue at the present time, i.e., producers' associations. The force and effectiveness of collective negotiation via concerted action on the part of producing or exporting countries is a fact which cannot be ignored. Moreover, United Nations General Assembly resolutions 3201 (S-VI) and 3202 (S-VI) on the Declaration and Programme of Action on the Establishment of a New International Economic Order, besides endorsing this concept, request the governments to make all efforts "to facilitate the functioning and to further the aims of producers' associations". Accordingly, the author also analyses the requirements which are entailed by arrangements of this type, and which ultimately guarantee the successful achievement of their objectives.

The document ends with some proposals, relatively new in their approach, relating to specific formulas for collaboration among countries.

Financiamiento y endeudamiento externo de América Latina y propuestas de solución, by Carlos Massad and Roberto Zahler, E/CEPAL/1041, mimeographed text, Santiago, Chile, 1977, 52 pages.

In recent years the external financing of the non-oil-exporting countries of Latin America has undergone radical changes, both in the scale, terms and conditions involved, and in the sources of external funds for the region.

In 1965-1970, these countries' average balance-of-payments deficit on current account represented less than 15 per cent of their exports of goods and services, but in 1975 the corresponding proportion was over 50 per cent. Similarly, while in the mid-1960s Latin America's external financing was obtained primarily from official sources, in the mid-1970s the bulk of it came from private banks abroad.

The document under review analyses the various aspects of this critical situation and puts forward some measures for remedying it. Among these, special attention is devoted to

the suggested action in areas such as future debt payments, the solvency of debtors, access to capital markets and flows, balance-of-payments financing, prices of raw materials and the expansion and diversification of exports. The last part examines the particular significance of these and other measures for the countries of Latin America.

América Latina. Relación de precios del intercambio 1928-1976, E/CEPAL/1040, mimeographed text, Santiago, Chile, 1977, 42 pages.

América Latina. Importaciones clasificadas según uso o destino económico (CUODE) 1948-1974, mimeographed text, Santiago, Chile, 1977, 52 pages.

These two documents represent the continuation and expansion of the statistical information contained in *Cuaderno Estadístico N° 1, América Latina: Relación de precios del intercambio*, CEPAL 1976.

The first document updates the statistical series for Latin America's terms of trade published in the above-mentioned Cuaderno, where figures were given up to 1972—the last year for which information was available when the document was prepared—and 1963 was se-

lected as the base year. In the documents under review, not only are the detailed statistics on external trade values and indexes, by country and for the region as a whole, brought up to 1976, but also the base year used in presenting them is 1970 = 100. To make the change in the base year, the whole method of calculating the country-by-country indexes as from 1970 was overhauled, and new samples of products for that year were selected. The series are presented for the longest period possible in each country, which of course depends on the basic data available. At the same time, the original series were consolidated, so that the period from 1928 to 1976 is covered in a single series. The base and weighting years adopted were, successively, 1937, 1948, 1955, 1963 and 1970.

In the second document, the data on imports at current and constant prices are expanded, by calculating them as from 1948 in accordance with the groups in the Foreign Trade Classification by Economic Use or Destination (CUODE). The values for these groups at current prices have been obtained for each country by classifying in each year the data from foreign trade yearbooks and other official publications. The method used to determine the values at constant prices, in their turn, was to deflate the values at current prices by indexes of unit value calculated for a sample of products included in each CUODE group.

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