

# CEPAL

## Review

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# C E P A L

## Review

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### CONTENTS

ECLAC: Forty years of continuity with change. <i>Gert Rosenthal.</i>	7
Agriculture as viewed by ECLAC. <i>Emiliano Ortega.</i>	13
Regions as the product of social construction. <i>Sergio Boisier.</i>	41
Some notes on the definition of the informal sector. <i>Martine Guerguil.</i>	57
Changes in development styles in the future of Latin America (Seminar in homage to José Medina Echavarría, Santiago, Chile).	67
Medina Echavarría and the future of Latin America. <i>Adolfo Gurrieri.</i>	73
Political culture and democratic conscience. <i>Enzo Faletto.</i>	79
A hopeful view of democracy. <i>Jorge Graciarena.</i>	85
The change of orthodoxy and the ideas of Medina Echavarría. <i>Aníbal Pinto.</i>	97
New light on the concepts of "private" and "public". <i>Aníbal Quijano.</i>	105
Significance and role of the universities: Medina Echavarría's view. <i>Aldo Solari.</i>	121
Dilemmas of political legitimacy. <i>Francisco C. Weffort.</i>	127
The social actors and development options. <i>Marshall Wolfe.</i>	143
Some recent ECLAC publications.	149

# The challenge of orthodoxy and the ideas of Medina Echavarría

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It is a serious commitment for an economist to take part in a meeting of distinguished sociologists, and all the more so when that meeting pivots upon the work and personality of so eminent a thinker as Medina Echavarría. The only valid explanation would seem to be that I am among those who followed his work with interest and profit, especially those studies based on political economy which, in some way and to some degree, are common ground for all the social disciplines.

Furthermore, this assembly of sociologists reminds me of one of the most significant and fecund epochs in the history of ECLAC, when—in the 1960s—the idea of a bold incursion into the field of sociology came to fruition. Dr. Prebisch and don José Medina Echavarría played decisive parts in that enterprise, which may well be compared to the muster of economists associated with ECLAC at the time of its foundation, 40 years ago.<sup>1</sup>

The intellectual output of those two periods has left a priceless legacy, which the rising generations cannot afford to ignore. Its diffusion has been sedulously promoted in the courses given by the Latin American and Caribbean Institute for Economic and Social Planning, but the effort needs to be stepped up by that and other means, such as this same meeting.

It is likewise obvious that much remains to be done to secure a more fruitful relationship, a more intensive dialogue, between sociologists and economists. We are not separated in watertight departments, to be sure, and much progress has been made in this respect, but the desirable and necessary goal is still a long way off. This is a subject that always interested Medina Echavarría, who, moreover, referring to pre-

cisely those relationships, wrote in one of his studies:<sup>2</sup> "... More often than not, the different specialists have simply passed the ball to one another. Economists have tried to work out their development models while leaving to others, sociologists or political scientists, the problem of verifying the data which on their own account they left untouched, as accepted or assumed. And conversely, the contemporary political scientists, concerned with emphasizing the purely political elements in the systems postulated as desirable—in general no different from those already arrived at by the countries that they considered more advanced—, left to the economists the study of the economic mechanisms which would make the maintenance of such political institutions viable. Thus, contemporary bibliography commonly abounds in examples of the two positions, with the consequent excuses on the one side and the corresponding reproaches on the other. Economists expected other social scientists somehow or other to give them, satisfactorily formulated, whatever they regarded as beyond their scope, outside the precise boundaries of their specific activity; similarly, but the other way round, no few political scientists, experts on administration and a good many sociologists reproached the economists for their unwillingness to hand over to them the sound information that they deemed necessary for the support of their own work. Such discussions and confrontations in a purely theoretical field, fostered by the desire to find generalizations valid for different situations and periods, are possibly meaningless; the only logical and consistent thing would have been to start with analyses conditioned in space and time, that is to say, actual and clearly-defined historical situations,

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<sup>1</sup>For a lucid and readable reconstruction of that period, see Celso Furtado, *A fantasia organizada*, Rio de Janeiro, Editorial Paz e Terra, 1985.

<sup>2</sup>José Medina Echavarría, *Discurso sobre política y planeación*, Mexico, D.F., Siglo XXI Editores, 1972, pp. 8 and 9. This was also included in *La obra de José Medina Echavarría: Selection and preparatory study* by Adolfo Gurrieri, Madrid, Ediciones Cultura Hispánica, 1980, pp. 293 to 376.

so that in view of them the problem could be stated in these or other similar terms: given the economic situation in which we are living here and now, and to which we wish to give impulse, what are the political instruments that ought to be used to serve that end? or, conversely, given certain political conditions which it would be desirable to improve in a given direction, what might be the economic instruments best fitted for the purpose? But the reason why scarcely anything is done on the basis of specific and individual historical cases, and trust is placed rather in the interplay of theories and models, lies largely in the fact that since the end of the Second World War there has been a swelling flood of theoretical bibliography which seems to have reached its highest tidemark at this very time."

We shall now come to the heart of our present matter, which is to recall some of Medina Echavarría's ideas that have a bearing upon the current controversy between monetarist orthodoxy and diverse heterodox schools of thought. To this end three of his studies<sup>3</sup> have been taken into consideration, with special attention to questions touching upon the State and on planning.

It might be said with some justification that this controversy dates back to distant times, for example, to the last century, when in Latin America discussion constantly went on between "free-traders" and "protectionists". But the present situation displays very special characteristics, inasmuch as the combatants in the arena include not only academics and politicians of one or other bent, but also government agencies, international organizations, private interests, both national and foreign, and so forth. What is occurring, in fact, is an ideological mobilization on a probably unprecedented scale.<sup>4</sup>

<sup>3</sup>Namely, "El desarrollo y su filosofía", "Discurso sobre política y planeación" and "La planeación en las formas de racionalidad". All three appear in *La obra de José Medina Echavarría*. Selection and preparatory study by Adolfo Gurrieri, *op. cit.*

<sup>4</sup>A significant case in point is to be found in the periodical *Economic Impact*, published by the United States Government Information Agency (No. 55, corresponding to the third quarter of 1986). It is devoted to the topic of "freeing constraints on the economy", and centres its attention on the drive to privatization and on deregulating key economic sectors. In the introductory summary (page 2) it is stated that "a recognition of this trend, and

What did Medina think of the conservative offensive? The following extract gives us a rough idea:<sup>5</sup>

"It is pathetic to see how timid the reaction still is in our milieux against the intellectual bullying of magisterial foreign theorists. In the dismay felt at being accused of unhealthy 'interventionism', courage has not always been found to retort that the whole accusation stems from a myth, from an ideology. The ideology with which the popular handbooks are soaked is nothing but the assumption that the 'liberal economy' sprang into life of its own accord on that memorable day when it was able to throw off the shackles of the State. It is maintained, or at least implied, that capitalism, as the form first taken by the economic system, is something proper to human 'nature', which has been able to flourish in full vigour only thanks to the rising bourgeoisie's having cut the umbilical cord which tied it to the State. Nothing, however, could be farther from the truth. Not only because the bourgeoisie —except in a single country— has always had to share authority, both political and economic, with other social forces, but for another more cogent reason: the way to the liberal economy was paved by mercantilism. In other words, what is forgotten is that a liberalized economy would never been possible without the preliminary —and some times strenuous— labours of an absolute and enlightened State."

Pursuing his historical approach, Medina Echavarría analysed the characteristics of the State "really existent" in the climate of modern or "reformed" capitalism.<sup>6</sup>

"The reformed capitalism" under which we are all living began to take shape at the end of the nineteenth century, and its reform was due to two types of causes, some social and others —strictly economic— structural. For the

with the avowed aim of spurring it at an accelerating pace, the U.S. Agency for International Development (AID) in early 1986 convened the International Conference on Privatization in Washington, D.C. The largest of any such meeting held to discuss that subject, the Privatization Conference attracted nearly 500 attendees from 46 countries including the developing countries. For three days, policy-makers, business representatives and technical experts shared their experiences and focused on privatization problems and opportunities".

<sup>5</sup>See "El desarrollo y su filosofía", in *La obra de José Medina Echavarría*, *op. cit.*, p. 230.

<sup>6</sup>See "El desarrollo y su filosofía", *ibidem.*, pp. 234 and 235.

moment we are primarily concerned with the former. We know that there is something of inexorable dehumanization in the economic system—development pure and simple, we should say nowadays—in so far as its sole objective is indefinite expansion of the system itself. Once in operation, it is like a blind juggernaut, reflecting the opacity of its statistical methods of description. Figures on tons, kilowatts or monetary units tell us nothing of the man who has produced them. The reform came about in the first place as a protest on the part of that same man against his treatment as a different order of being. It was incarnated most visibly and effectively, although not solely, in the rebellious spirit of the workers' movement. There is a long and unforgettable list of intellectuals, administrators, philanthropists and sensitive politicians who assisted in this great work of creation. Its results may be deemed mere compromise between threat and fear, but they did in fact mean that certain states of painful and profound humiliation were eliminated for ever. The point of interest here is that such a compromise entailed a considerable modification of the "system" as such, because the elimination or attenuation of its dehumanizing elements presupposed the diversion of part of the surplus towards ends other than those of pure expansion. What has since been called "social policy" necessarily came into being at the expense of a greater or lesser fraction of investment possibilities. That this fact, so far from giving the "system" a shattering blow, injected it with fresh vigour is another of the paradoxes of history, by no means entirely incomprehensible. The very thing that implied a negation of capitalism became dialectically its road to salvation, that is, to its historical perpetuation, although in a different form.

"In turn, however, the reform was brought about by paths other than that of human protest. The internal evolution of the system once more invoked the presence of the much-reviled State, whose heterodox action again became a lifebelt. Since a certain memorable year—1929—, no country of any importance has dreamed of committing itself anew to the ficklewists and surprises of economic automatism. And, sanctioned, of course, even the most recalcitrant entrepreneurs have given their benediction. The history of events coincides with the formation of

the contemporary 'welfare State'—in its different forms—and is a long tale to tell. There is scarcely any important State which does not pursue a conjunctural—anticyclical—policy and does not intervene in one way or another in disturbances arising in its internal sectors—price movements, income distribution, etcetera. This modern State accentuates—according to the country concerned and to changes of horizon—one or other of the aspects glanced at, from 'welfare' strictly speaking to the organization of production, but it is no longer possible to imagine a return to the watchful neutrality of the liberal conception."

These opinions should be considered in relation to the bases and intentions of the orthodox campaign.

Outstanding, indubitably, is the aim of reducing the sphere of action and influence of the State until it has been turned into a "subsidiary" institution undertaking only the jobs that the private sector is unable or indisposed to carry out. This subsidiary State is, in reality, a resurrection of the nineteenth century ideal of the "policeman State", a mere aloof guardian of the social process, basically governed by the principles of *laissez-faire, laissez-passer*.

This general definition implies a wide range of consequences and requisites, such as the restriction of fiscal expenditure and the relief of the tax burden, particularly personal and private company income tax. Privatization of public assets and enterprises is another cornerstone of this conception. Furthermore, the unrestricted rule of market laws runs counter to any idea of planning, while at the same time social and redistributive action is confined to "borderline cases" or to extreme poverty, after the fashion of the poor laws of last century.

What is the source of these conceptions and policies?

While the incidence of ideologies obvious, so too is the weight carried by other elements of a more factual character, such as the fiscal crisis affecting many States. In so far as the pace of their expenditure outstrips the possibilities of regular financing, pressures arise for the restriction of the former and the balancing of the latter. The potential or actual shadow of the inflationary consequences of this state of affairs is a key factor in the adoption of the relevant decisions.

In the end, this leads to the hardening of a critical attitude towards the nature and implications of the so-called "welfare State".

Although the diffusion of these concepts has been enormously widespread and persistent in recent years, the truth is that their effects have not been as substantial as might be imagined, although there are countries —such as the United States and the United Kingdom— where the "offensive" has been strikingly energetic.

It can be seen in table 1 that both in the industrialized and in the Latin American economies, the main trends in 1972-1982 seem to have been towards an appreciable and widespread increase in the proportion of the gross national product represented by the expenditure of cen-

tral governments, on the one hand, and on the other, a rise in public deficits, measured by the same yardstick. Actually, the first ratio shows considerably higher levels in the first group of countries than in the second, while the size of the deficits is similar in both, except in specific periods and countries.

Judging from the available data, the effects of the offensive against the Welfare State have fallen short of those assumed or pursued by the orthodox campaign in the developed economies. This is an unmistakable sign of how deeply it has struck root and of its influence on the evolution of the "reformed capitalism" to which Medina Echavarría referred. In all this process particular significance attaches —especially for the Latin American countries— to the policies designed to reduce the universe of public or State-controlled enterprises.

In this connection the traditional argument is generally based on the supposed "inefficiency" of the *State consortia*. Undoubtedly such cases do exist and measures to deal with them are often called for. Today, however, the tendency to privatize public units of unquestionable economic efficiency which play important parts in the structure of national wealth has gained ground. In these circumstances, it seems obvious that priority is accorded to the ideological view of the matter and the more pragmatic consideration of transferring good business to the private sphere.

Any analysis of these questions, above all in Latin America, should take into account the fundamental role played by the States and their enterprises in the constitution of the region's economy. It has more than once been maintained that the State took definite shape before the Nation, conversely to what would seem to have happened elsewhere, particularly in Europe. In the cycle of the primary-exporter countries, for example, it was the governments that represented the national interest and managed resources and linkages with foreign interests. In some instances, they were the creators and managers of public enterprises and services; in others, it fell to them to negotiate with these respecting the distribution of profits. In more recent times, there has been a manifest tendency to place foreign activities of strategic or fundamental importance for the national economy under the administration and ownership of the State.

Table 1

**SELECTED COUNTRIES: PUBLIC EXPENDITURE AND ITS FINANCING, 1972-1982**

(Percentages of gross national product)

	Public expenditure <sup>a</sup>		Deficit/surplus	
	1972	1982	1972	1982
<b>Industrialized countries</b>				
Federal Republic of Germany	24.2	31.5	0.7	-1.9
Austria	29.7	39.6	-0.1	-4.5
Belgium	39.2	57.4	-4.3	-12.5
Denmark	32.9	45.6	2.7	-8.5
Spain	19.8	29.1	-0.5	-7.1
United States	19.4	25.0	-1.6	-4.1
Finland	24.8	31.5	1.3	-2.2
France	32.5	42.1	0.7	-2.8
Italy	...	49.8	...	-11.7
Norway	35.0	39.7	-1.5	0.8
United Kingdom	32.7	42.4	-2.7	-4.4
Sweden	28.0	44.9	-1.2	-9.7
<b>Latin American countries</b>				
Argentina	16.5	21.6	-3.4	-7.5
Brazil	17.8	21.8	-0.4	-2.7
Chile	42.3	37.6	-13.0	-1.1
Mexico	12.1	31.7	-3.1	-16.3
Uruguay	25.0	30.1	-2.5	-9.2
Venezuela	21.3	29.6	-0.3	-5.4

Source: World Bank, *World Development Report 1985*, Washington, D.C., 1985.

<sup>a</sup>Including defence, education, health, housing, social security and welfare, services and other expenditure.

The orthodox offensive looks like a sweeping change of direction in these longstanding trends, all the more so inasmuch as it overlooks the specific criteria of the greater or lesser efficiency of the enterprises affected, and brings in its train the transfer of supremacy into foreign hands —its "externalization"— through great private oligopolies. Needless to say, these characteristics are contradictory to the avowed objective of "spreading out ownership".

José Medina Echavarría's view of the role of the State and its agencies is very clearly reflected in his identification of its functions in a modern economy:<sup>7</sup>

"Assuming the existence of a political power, exercised through a historically variable system, what is of most interest at the moment is the possibility of defining the functions of political power in relation to economic activity, of particular importance when, as at present, the matter in hand is economic development. It should be noted that on this point there is a measure of consensus, with terminological variations, since all alike stress the following functions of political power in relation to economic activity: *the stimulating function, the distributive function and the integrating function.* (Italicized by A. Pinto.)

"As regards the stimulating function, the State can act through a declaration at a given moment of what it understands by the rating of work; indicating the quantity or quality of the work in question which it considers most appropriate to the existing circumstances, or, conversely, determining the amount or the forms of the abstention from consumption which may, although not necessarily must, be entailed by the intensification of the work concerned; lastly, political power can likewise influence, in different ways, the patterns of division of labour, accentuating or encouraging those which at a given time and place it considers preferable. The distributive function of political power is well-known for the ways in which it can influence the distribution of income or of the potentialities of economic action implicit in the granting of credit. While these are not the only

instances of the distributive function, there are certainly the most important. The integrating function can be effectively fulfilled provided that political power succeeds to some extent in organizing or unifying the field of economic activities: setting up targets, attempting to harmonize the growth of various sectors or seeking to impose specific norms of coherence upon the economic system as a whole.

"From the standpoint of development, these three functions of political power are singularly important: efforts may be made to increase the productivity of labour, by curtailing certain types of expenditure or by giving priority, in the social division of labour, to specific activities over others (to industry, for example, in preference to agriculture, or, within the former, to heavy industries as against the rest). There is no economic growth that does not spontaneously bring with it a certain distribution of income, and therewith of real purchasing power. The political authorities can accentuate these effects by speeding up those changes that result in greater equality between them. The integrating function has always been exercised by political power in one way or another, but there can be no doubt that it attains its most definite expression in the current forms of planning, whatever their nature."

It is not surprising, therefore, that these "forms" of public action are repulsed by orthodoxy, which sees in them the most dangerous challenge to the operation of market laws. It seems obvious that this repulse of the enemy has won a good deal of ground, and that in Latin America, as elsewhere, the defenders of planning have had to undertake a careful review of national experiences in order to reply to criticism and put forward more efficient alternatives.<sup>8</sup> On this subject, and far in advance, Medina Echavarría, almost 20 years ago, meditated to the following effect:<sup>9</sup>

<sup>7</sup>See, in this respect, *CEPAL Review* No. 31, April 1987, devoted to the papers submitted at the International Colloquium on New Directions for Development Planning in Market Economies, jointly organized by the Latin American and Caribbean Institute for Economic and Social Planning (ILPES) and the United Nations Development Programme (UNDP), and held in Santiago, Chile, from 25 to 27 August 1986.

<sup>8</sup>See "La planeación en las formas de la racionalidad", in *La obra de José Medina Echavarría*, *op. cit.*, p. 377.

<sup>9</sup>See "Discurso sobre política y planeación", *op. cit.*, pp. 19 and 20.

"At one time we may have thought that planning was the most useful instrument for the organization of economic life and for economic development, that as such an instrument, moreover, it seemed sufficiently well-wrought and that nothing remained but to put it into immediate operation. Later, however, signs began to be seen, perhaps, that it was not working as well as had been expected. Where were the flaws, in the instrument itself or in some of the ways in which it was applied?"

Pursuing his analysis, Medina points out, in response to these queries that "in its extreme forms —never fully put into effect— planning tends to take shape in different places, in one or other of these three types: bureaucratic, technocratic or democratic".<sup>10</sup>

It would be impossible to review or reproduce the lucid reflections to which each of these models gives rise. We shall confine ourselves, therefore to some that define the democratic planning option, which is, needless to say, the one that the author prefers, although he does not fail to recognize the obstacles that stand in the way of its materialization. In this connection, he begins by frankly saying that "of the time-honoured description of democracy as government of the people, by the people, for the people, sociologically speaking the second postulate is still the shakiest".<sup>11</sup> Even so, in view of experiences relating to these different types or modalities, he asserts that it would be feasible "not only to maintain the possibility of democratic planning, but even to hazard the opinion —a hypothesis not difficult to substantiate— that planning has been able to function best, within the present representative systems, there where its organization was adjusted or articulated on lines parallel to the institutions of the political régime in force. In other words, only in that case has planning had political viability, real effectiveness".<sup>12</sup>

Continuing his argument, Medina embarks upon an outline sketch of the main points of intersection between democratic and "planning" processes, which would appear to be the following:<sup>13</sup>

<sup>10</sup>*Ibidem*, p. 389.

<sup>11</sup>*Ibidem*, p. 407.

<sup>12</sup>*Ibidem*, p. 409.

<sup>13</sup>*Ibidem*, pp. 411 and 412.

"First and foremost, the relations between the planning organs —whatever they may be called— and the traditional political organs constituted by the Parliament and the Executive must be precise, and as well-defined as possible. The differences between presidential systems and systems of parliamentary government do not, in principle, affect the components involved. There is no way of eliminating, in any event, the importance of the deliberative function of Parliament in the selection of the basic economic options, prepared by the planning agencies, on which in the last analysis the Executive decides, whether President or parliamentary Cabinet.

"In the second place, there are the contacts and relations —not left to chance either— between the planning agencies and the groups most representative of the various social interests, whether primarily economic —like those of the trade unions and entrepreneurial organizations— or cultural, artistic, scientific or otherwise.

"It is desirable to make sure, in one way or another, that alongside national planning local aspirations and interests are able to make their voice heard. A case in point is regional planning, which is by no means technically simple and which has been arrived at here solely through the political channel of increases —as far as possible only those that were unavoidable— in popular participation.

"Lastly, when the citizen's electoral participation or his *de facto* share in the orientation of professional organizations is considered insufficient, no-one nowadays questions the desirability of encouraging, in accordance with historical traditions, the creation of new and different participation centres among the lowest links of the chain of political influence; for example, what are known as 'community development' units."

At a distance, setting the reflections of Medina Echavarría over against the realities of the present situation, it seems clear that what we might call his "historical optimism" is not compatible with the vigorous onslaught of orthodoxy against such agents as the State and, above all, planning. Nevertheless, there is reason to doubt whether it will win in the end. First, because in a period of great uncertainty and of changes which are presumably highly meaning-



ful, it seems obvious that those much-debated agents will necessarily have to play an outstanding role. Over against the undeniable attributes of the mechanism or institution called the market, the assumption still holds good that it suffers—as has been remarked—from tem-

poral myopia and social strabismus. In contrast, the strength and validity of the rival—though not substitutive—actors rest precisely on their ability to look ahead into the future and keep a wary eye on the social or humanitarian projection in times of change.