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Notes and explanation of symbols

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

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

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

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

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

A point (.) is used to indicate decimals.

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

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

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

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

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

A historical turning point for the Latin American Periphery

*Raúl Prebisch**

In the face of the critical economic situation through which most of the countries of Latin America are passing, the author presents his interpretation of this and outlines the measures which should be taken to deal with it.

Right from the start he recognizes the existence of serious conjunctural problems —such as the reduction in the economic growth rate, the high rate of unemployment, the deterioration of the terms of trade, the high level of external indebtedness, etc.— which call for the application of a rapid and effective short-term policy, whose principal measures he outlines. He emphasizes, however, that behind these conjunctural problems are profound and serious structural imbalances, so that the conjunctural policy must not be viewed as something isolated, but as the starting point of a structural development policy.

The present crisis has brought to the fore once again both the external imbalance and its tendency to choke development, and the internal imbalance, the exclusive and conflictive consequences of which are reflected above all in the inability to absorb the entire labour force in a productive manner, and in social inflation.

To deal with the external imbalance, he suggests basically that industrialization should be promoted within a regional framework in order to surmount the limits of national markets and the serious restrictions resulting from the present relationship with the centres. In order to overcome the internal imbalance, he emphasizes that the problems of accumulation, redistribution and inflation inevitably call for the macroeconomic regulation of the surplus: the cost of the crisis and of the reactivation must be spread out in an equitable manner, and the labour force must share in the surplus and in the responsibility for accumulation.

*Director, CEPAL Review.

I

The swinging pendulum of development policy

The crisis of capitalism in the centres is spreading to cover the whole world, and its adverse effects are clearly visible on the periphery, where it is aggravating the disturbances which had already been occurring in that area's own development.

We are now at a crucial and historic turning point, as at the time of the Great Depression. At that time, by the force of circumstances, we had to follow our own road to development, but we departed from that great undertaking during the long boom years of the centres, which came to an end in the first half of the 1970s.

We Latin Americans should wake up to the facts. The centres are simply not interested in our achieving a socially satisfactory form of development. Our development only concerns them inasmuch as it affects their own development. It goes without saying, however, that the centres have great significance for us because of our technological and capital exchanges with them. The great problem lies in taking advantage of all this in a rational and independent manner.

This limited interest on the part of the centres is a consequence of their centripetal dynamics rather than of any ill intent. At all events, it is essential for us to continue the by no means easy quest for our own road to development.

When we set out along this road before, we had both success and failures. We did not fully recognize the structural obstacles, and much less the need for great changes, and in order to correct these errors we frequently committed others in the opposite direction. In reality, we were moving like a pendulum.

In this transition from one swing of the pendulum to another there has been a great deal of ideological influence. *The slow and precarious process of freeing ourselves from theories alien to our own reality which we began in the Great Depression gave way in more recent times to opposite concepts whose results are already beginning to be all too*

clear. Let us look at the most important of these:

—Although development has been vigorous, it has not been equitable. There have been great disparities in the structural distribution of income, and the economic efficiency of the market has not been accompanied by social efficiency. In the course of our development, attempts have been made to correct these disparities in the labour force's share in the fruits of development through labour's exertion of its trade union and political power and through State spending. Because of the nature of the system, private and social consumption have indeed been increased in this way, but not at the expense of the privileged consumption which the upper strata enjoy because of their power. Instead, this has taken place to the detriment of the rate of accumulation of the reproductive capital which serves to multiply employment and productivity. *This imbalance between the rate of consumption and the rate of accumulation inevitably leads to social inflation.*

Neither the market forces—which are of great significance in the efficiency of the system—nor the distributive struggle arising from the power play have imparted social efficiency to the system, *nor indeed could they ever do so. They have not shown themselves to be suitable mechanisms of distributive equity. In order to achieve the latter it is essential that the State should exercise its regulatory action in a manner compatible with individual enterprise, competition and the process of democratization.*

A clear and vigorous policy of redistribution and dynamic promotion is called for, but we have lost our way as regards the means, although not as regards the ends pursued.

We cannot and did not close our eyes to such errors. In our desire to correct them, however, we have fallen into opposite errors: hamstringing the trade union and political power of the labour force and dismantling the machinery of the State. And by seeking to attack social inflation through monetary approaches we have simply caused economic contraction and unemployment.

— *The State bears a fundamental responsibility in development* which it has not been

able to fulfil properly, possibly because of its own tendency towards excessive growth, due above all to its attempt to correct the social inadequacy of development. Inflation and external vulnerability have also caused it to intervene where it should not have done so, with negative results.

— For a considerable time past there has been growing recognition of the need for enlightened regulation of the banking system, as the essential instrument of monetary policy. *Inflation has adversely affected and complicated this regulatory action*, and the pendulum has swung to the other extreme, so that the importance of this action has been rejected in favour of total banking liberty, that is to say, freedom to create money *without observing the most elementary rules of discipline, and to the serious prejudice of financial solvency.*

— *This exaggerated liberty also extended to external operations*, and here too there was a swing of the pendulum. We rightly complained in the past about the IMF, which we accused of applying a set of technocratic rules in whose formulation the periphery had not been given any opportunity to participate, and the same complaints were levelled against the criteria of the World Bank: two organizations of States whose duty is to make loans mainly to States. On the pretext of the free play of the laws of the market in the international field, however, big private institutions rapidly developed their Eurocurrency operations, thus largely displacing these two organizations. Private enterprise, it was repeatedly argued, knew best how to make wise use of international financial resources, *and the incentive of massive gains prevailed over prudence and good sense, in a process of mutual harmonization of immediate interest in both the centre and the periphery.* The consequences of this swing of the pendulum are clearly to be seen.

— *The Great Depression and its prolonged aftermath brought home to us the unavoidable need to industrialize.* In a world economy shrunken and fragmented by the depression it was essential to embark on import substitution, and this somewhat unbalanced solution came to be a veritable dogma of development, so that we neglected our exports and sometimes even hindered them. We continued

in this way until, with the recovery and re-opening of the world economy, opportunities arose for the export of manufactures, particularly in the long years of prosperity of the centres. We finally learned to do so with such success that the pendulum rapidly swung to the other extreme and we looked down on substitution policies: now, development must be promoted on the basis of the powerful motive force of free trade. *However, we were not able to achieve a balanced combination of import substitution with the export of manufactures.* If we had done so we would now be able to face up better to the external vulnerability of our peripheral economies.

Are we going to continue indefinitely with this to-and-fro movement? What is involved is not, of course, the search for a golden mean, but the need to make fundamental changes aimed at correcting the great structural imbalances of our development: the imbalance with the centres, with the tendency towards an external bottleneck choking development, and the internal imbalance which is responsible both for

the exclusive tendency of the system, with its inability to provide productive employment for the great masses relegated to the bottom of the social structure, and for the conflictive tendency in the distribution of the fruits of development which gives rise to the grave problem of social inflation.

The consequences of these imbalances are combined with cyclical or conjunctural movements which generally arise from them, as the cycle is the characteristic form of evolution of the capitalist economy. This gives rise to intricate phenomena which are both structural and conjunctural at the same time, as we are witnessing now, when the serious decline in the growth rate of the centres is having troubling repercussions on the periphery which aggravate the effects of our own actions.

The following chapter will be devoted to this latter point, after which we shall deal with structural imbalances. The ultimate aim of all this is to reflect on the right road to follow in the development of the periphery.

II

Conjunctural policy

A distinction should be drawn right away between conjunctural and structural phenomena: this is a useful practical distinction, provided that we do not lose sight of the fact that conjunctural phenomena are almost always the result of structural imbalances. Thus, the adverse conjunctural effects of monetary policy stem ultimately from the structural faults in the system or, to be more exact, from the structural imbalances which occur in the course of development and the changes which take place in the power structure.

The correction of these structural imbalances is not something which can have immediate effects, but takes a certain amount of time. Indeed, there is by no means general agreement on the interpretation of these imbalances, especially as regards the imbalance between the rate of consumption and the rate of accumu-

lation on the periphery. These phenomena could hardly be tackled, then, without first of all trying to clarify and explain them.¹

However, the presence of structural phenomena does not justify the relegation to a lower level of priority of the need for a conjunctural policy. At the same time, the most important measures involved in such conjunctural policy should not run counter to those which would have to be followed in a policy of struc-

¹From the very first days of CEPAL it was stressed that the tendency to structural imbalance in the relations with the centres could not be corrected through the simple play of the laws of the market, and it was also noted that there were structural elements in inflation which, it was maintained, could not be combated with monetary measures. We were a little longer, however, in realizing that the inner logic of the system inevitably tends towards crisis, through its own dynamics.

tural changes, which, by their very nature, would have to be of a long-term nature. In the final analysis, the long term has its starting point in the present.

We now propose to engage in a brief discussion of the main elements of a conjunctural policy, its possibilities and its limitations. These are short-term possibilities, of course. Beyond them lie the limitations of a structural nature, the gradual reduction of which calls for a longer space of time. This latter element corresponds to structural development policy.

Of course the centres also have serious conjunctural problems arising from their own structural crises, the solution of which would reduce the seriousness of their repercussions on the periphery.

Let us now analyse the incidence of this crisis and its conjunctural consequences on the Latin American periphery. This crisis is manifested in very different aspects:

— There has been a sharp reduction in the extraordinary growth rate which the centres had previously achieved. The adverse effect of this on the growth rate of the exports of the periphery, together with the resurgence of protectionism, are aggravated by the deterioration in the terms of trade, accentuated by the rise in oil prices.

— These phenomena which are so adverse to the periphery have brought with them a considerable decline in the latter's rate of development, with a consequent drop in employment and income, all of which has brought about a conjunctural aggravation of the exclusive and conflictive tendencies of the system.

— The objective of correcting the fiscal deficit through extraordinary rises in interest rates has not only aggravated the effect of the structural crisis of the centres on the employment situation but has also helped to bring about a sharp rise in the already excessive burden of Eurocurrency credits on the countries of the periphery.

The IMF and the World Bank did not channel to the latter the floating assets from the Eurocurrency market, coming largely from the oil surpluses, in order to organize a sound and effective flow of resources to the periphery. It was the international private banking system which carried out this task, for which it was not

prepared, while the advanced countries managed to attract huge investments of the oil surpluses. Moreover, there has only been very scanty realization of the hopes that the oil-exporting countries would invest a growing proportion of their surplus resources in the development of the Third World.

— The decline in these surpluses, the high rates of interest, and the adverse consequences of the crisis in the centres are now revealing the serious effects of this imprudent indebtedness on the part of the periphery, only part of which has gone into reproductive investments.

Although the incidence of these events has been very unequal in the different countries of Latin America, all of them are suffering as regards the growth rate of their exports and the internal consequences, and all of them—albeit in different ways and to different extents—have to defend themselves with conjunctural measures. A distinction must be drawn, however, between the oil-exporting countries and the other countries of Latin America.

Let us consider the first of these. The abundant oil resources generated veritable euphoria, both at the State level and in private activity. They gave rise to very easy availability of credit, the expansive effects of which were accentuated by the flow of Eurodollar resources, and there was a very sharp upswing in economic activity and employment, above all in construction and various services not connected with the exterior, but at the same time the overvaluation of the currency adversely affected exports and import substitution activities.

In the case of the other countries, whose exports suffered the consequences of the crisis inasmuch as imports and interest rates went up, the increased inflow of external resources stimulated by the rise in domestic interest rates did not serve so much to improve domestic activities as merely to lessen somewhat these adverse effects. With the same objective of combating the latter, credit restriction measures were also sometimes imposed (to which we shall refer in the following chapter), the effect of which was to accentuate the economic contraction and unemployment, especially when it was sought to combat the domestic

consequences of inflation through overvaluation of the currency.

A conjunctural policy is therefore essential in order to face up to these problems, in view of the big differences between the countries and the degree of restriction inherent in their structural imbalances.

The starting point for all this must be the reactivation of the economy, which has two main aspects, namely, its domestic inflationary effects and its consequences on the balance of payments.

Above all; it is necessary to encourage enterprises to expand their production. This requires an increase in demand in order to give an initial impulse to the production mechanism, either by raising wages, when these have suffered serious deterioration, or through other promotional measures, in addition to the effects of increased exports and the adjustment of imports.

Very little can be achieved without sharply reducing the present exorbitant interest rates at least down to the international level. The risk that such a reduction and the easing of credit may stimulate the flight of capital to the exterior is of course a matter of great concern. *We are thus faced with a very difficult option as regards conjunctural policy, particularly in the period of transition: either the outflow of funds to the exterior must be temporarily controlled, which is a very difficult and frustrating matter, especially when there is no banking discipline, or else the contraction of the economy and the rise in unemployment will continue with increasingly serious economic and social effects.*

There is also the problem of the unpaid debts to the banking system due both to these high interest rates and to the serious state of the economy. This is not merely a question of isolated enterprises, which could go into liquidation without causing serious disturbances, but affects a considerable number of firms. A general wave of liquidation which would also shake the stability of banks and depositors is out of the question. It will readily be understood that if this problem is not solved, the reactivation policy will have very little effect. It is largely a question of stretching repayment terms and lowering interest rates: a problem

which is inherently very difficult not only because of the almost inevitable bankruptcies but also because of the need to spread out their effects in an equitable manner.

What inflationary effects could the expansion of credit bring with it? No matter how much idle capacity there may be in the economy, it would be impossible to avoid some rises in prices as employment recovers. Indeed, it is even desirable that this should take place up to a level which enables the economic surplus to be restored, and with it the potential for the accumulation of reproductive capital which will make it possible to set about the solution of certain structural problems. If this rise in prices is followed—above all if it has been necessary to devalue the currency—by a corrective adjustment of wages, however, the resulting inflationary spiral would seriously compromise the success of the reactivation policy.

This is a matter whose importance should not be overlooked. Here we encounter the question of the economic surplus once again. We already explained in another study why the continuous growth of this surplus is of great importance for the growth of the economy. A clear distinction must be drawn, however, between this dynamic significance of the surplus and its appropriation. This raises some very serious queries. Is the surplus going to be increased in order to restore and increase the privilege consumption of the upper strata as well as their capital accumulation? Will the accumulation continue to take place for their benefit? And would it be socially and politically acceptable to keep down the wages of the labour force in spite of the rise in prices so that the surplus can grow on such terms?

Getting to the bottom of the problem of the social use of the surplus is a very intricate and difficult matter which cannot be lightly improvised in the face of the urgent need for a reactivation policy. *The immediate containment of wages in order to reduce or avoid the inflationary spiral would have to be compensated, however, with some form of participation of the labour force in the growth of the surplus, not only in order to increase its inadequate consumption but also in order to enable it to share in accumulation.* All this must take place at the

expense of the consumption of the privileged strata.

In this way, it would become possible to reduce the inflationary effect of increased wages on costs and prices. Of course the reduction of interest rates would also have this effect by compensating to some extent for the repercussions of wage increases, as would the reduction in costs made possible by better utilization of production capacity.

There is usually a great deal of talk in this respect about income policy. The results of this would be very precarious, however, if the labour force were not made to participate in one way or another in the growth of the surplus. The same could be said of price controls, to which temporary recourse could be had in acute cases, although this could run counter to the need to restore the surplus.

Concern about combating inflation now brings me to the question of the fiscal deficit. The application of drastic measures would enable this to be reduced or eliminated, although they might at the same time cause or aggravate unemployment. On the other hand, it would be a very serious matter to add the expansion of credit for the purposes of reactivation to such a deficit. In undertaking such expansion, it would therefore be necessary to increase taxes and reduce expenditure in proportion as the economy is reactivated.

From the external point of view, the expansion of credit would bring with it an increase in imports, thus accentuating or provoking an external imbalance. Of course, where overvaluation of the currency had been corrected, the immediate effects of this would be favourable, but if the circumstances call for a very sharp reduction in imports, as might happen in certain cases, especially when the burden of oil imports is very heavy, perhaps this would not be sufficient, even if prudent use were made of the monetary reserves or external credits. It would therefore be necessary to apply severely selective measures through emergency taxes, rather than resorting to rationing, with its disturbing effects. All this should be accompanied by measures aimed at giving a strong stimulus

to exports. I do not believe that currency devaluation should be resorted to for this purpose.

In this respect, it is necessary to distinguish between two types of devaluation. There is one kind which must inevitably be applied—and the sooner the better—in order to bring the exchange rate in line with domestic inflation. The other type of devaluation is that resorted to as a means of securing external equilibrium, and this type is not advisable, for reasons which I shall set forth elsewhere.

We have spoken of the domestic and external possibilities and limitations of a conjunctural policy. We have noted that it is indispensable in order to increase employment and restore the surplus, the latter being the starting point for the vital growth of reproductive accumulation, which will subsequently open the way to a structural policy. We must not, however, fall into tempting illusions. Conjunctural measures are an urgent requirement. But they cannot serve as a substitute for a longer-term policy aimed at gradually correcting the tendency towards structural imbalances.

We noted elsewhere that the conjunctural policy is a matter which depends on our own decisions. Nevertheless, the co-operation of the centres would be of great importance in this respect. It is true that—jaded as they are by their own problems—they could hardly be expected to take a very different view from the very narrow one which they have displayed so far. There are urgent measures which they should take, however, especially as regards the external debt of the countries of the periphery. In spite of the seriousness of the problem, the broad solutions of elementary precaution which are called for if we are to avoid a ruinous financial collapse have not yet been achieved at the international level.

This must form the starting point for measures designed to support the domestic reactivation of the periphery. The policy of limiting imports will be very difficult in some cases, and until such time as it begins to show its effects the IMF could play a valuable and timely role by helping to reconcile the growth of employment with external equilibrium.

III

The structural tendency towards domestic imbalance

As we have already noted, the exclusive and conflictive tendency of development derives from structural factors whose manifestations are aggravated by conjunctural problems. No matter how much we try to attack these problems with measures such as those just mentioned, the effects of these measures will be limited by imbalances of a structural nature which call for thorough-going changes. Let us now consider the tendency towards domestic imbalance, by raising some important queries in order to guide our discussions.

Why is it that the great disparities in the structural distribution of income cannot be corrected beyond certain limits? Why does social or distributive inflation occur when these limits are passed? Why does monetary policy become ineffective and counterproductive?

Inequality is an essential element in the dynamics of peripheral capitalism, since the surplus from which the accumulation of reproductive capital derives depends primarily on this. At the same time, however, the surplus stimulates the privileged consumption of the upper strata.

Thus, the upper social strata, which have most of the means of production in their hands, appropriate a large part of the increase in productivity of the system, the fruits of which are only transferred to a small extent to the labour force, because of the heterogeneity of the social structure. This structure displays great disparities of productivity due to the different degrees of penetration of technology, so that those employed at the lower levels of technology and income are competing with others employed in higher-productivity strata, thus making it difficult to achieve an improvement in their wages with respect to the latter.

That part of the increased productivity which is not thus transferred to the labour force remains in the hands of the owners of the means of production in the form of a surplus, because of their power of appropriation.

At the same time, in the course of the struc-

tural changes the trade union and political power of the labour force gradually increases, thus enabling it to share in the fruits of greater productivity through higher wages. *The growth rate of the latter cannot exceed the growth rate of productivity, however, without causing disturbances in the system. This is not subject to any regulatory principle.*

This is where the monetary instruments are of great significance. They have a dual objective: to make possible the appropriation of the surplus and to defend it from the attempts to bring about its redistribution. Money is very far from being neutral, as is often claimed. On the contrary, it is a decisive element in social inequality. The theory of the neutrality of money merely stems from reluctance to recognize the social structure and the changes in it.

In order to understand this matter it is necessary to explain the monetary requirements of unfinished production. In the evolution of the latter, the production of final goods develops more rapidly than that of the employment which gives rise to it and the corresponding income, thanks to rising productivity. Consequently, if the demand for such goods came only from this income, prices would go down in proportion as productivity rose. In reality, however, demand does not result from such income previously paid in the course of the production of such goods, but from the larger income resulting from the as yet unfinished production of a larger quantity of goods which will subsequently come on to the market. Thus, the demand arising from this larger income prevents prices from going down.

The monetary authorities play an important role in this, since enterprises turn to the banking system in order to secure the expansion of the money supply with which to pay the income of the labour force. This expansion permits the enterprises to retain and increase the surplus. *The surplus is of a structural nature, whereas its appropriation is of a monetary nature.*

What happens when wages increase? The answer is that in order to meet this increase the enterprises will need to increase the flow of money which they had previously had at their disposal. If they succeed in doing so, then demand will rise. Thus, a moment will come when, thanks to the redistributive pressure, wages will exceed the increase in productivity, and the greater demand thus generated will cause prices to rise.

This rise in prices restores the growth of the surplus, which had been flagging to the extent that the higher wages had increased the labour force's share in the fruits of productivity.

Before we go any further with this line of reasoning it should be explained that *the labour force is not only struggling for higher wages but also seeks, when it has sufficient trade union and political power, to offset the factors which have adversely affected its real income*, the most important of these being the taxes and other charges levied by the State, which fall on the labour force's shoulders in one way or another. In response to them, the labour force seeks to recover the lost ground through an increase in wages. To the extent that it succeeds in gaining such an increase, it increases the tendency of wages to exceed the rate of growth of productivity. *It is hardly surprising, then, that in such conditions taxes or other charges become a source of inflation.*

The same occurs with other factors of domestic and above all external origin which, by reducing real wages, give rise to this action of seeking compensation.

The system lacks a mechanism which would enable it to deal equitably with these adverse effects on wages. In all this *there is a bias in favour of the upper strata, which obtain a considerable part of the fruits of technical progress*. When the labour force tries to gain a bigger share of these fruits beyond the limits mentioned, or to offset the adverse effects on its income, the system reacts with a rise in prices, thus restoring the growth of the surplus and the capacity for privileged consumption.

Whatever happens, every time that the labour force gains sufficient power in the course of the democratization process this means that every increase in prices is necessarily followed

by a rise in wages, in the all too well-known inflationary spiral, and the surplus swells and contracts alternately, to the detriment of its growth-producing role.

What can the monetary authorities do to check this spiral? *They must not resort to any of the actions which it was possible to carry out in previous stages of structural evolution, when the labour force lacked power or was only just beginning to gain influence. If an attempt is made to repeat this approach in later stages, the consequences are counterproductive.*

In those earlier days, the monetary authorities could simply refuse to grant firms a larger supply of money to pay the increased wages. This brought with it recession or contraction, with consequent unemployment. The unemployment eventually compressed wages, and the labour force was then not only compelled to retreat from what would otherwise have represented a real improvement, but also to bear the burden of the fiscal taxes and charges which fall upon it, as well as the other internal or external adverse factors referred to earlier.

Let us reflect on what all this means. *The labour force had to compress its consumption in this way in order to restore the surplus: not only the surplus as a source of accumulation, but also as the element making possible the privileged consumption of the upper strata.*

Those who believe that the free play of market forces tends towards distributive equity justify the drop in real wages by claiming that this merely corrects the harmful consequences of the violation of the market laws by the trade union and political power of the labour force, which they considered to be abusive. Of course they overlook the appropriation and retention of the surplus by the upper strata, which prevents the spontaneous social diffusion of the fruits of technical progress.

When the trade union and political power of the labour force is vigorous, however, and resists the drop in wages, a singular phenomenon of our days takes place: a rise in wages takes place side by side with recession or contraction of the economy. This is explained by the fact that the restrictive monetary policy obliges enterprises to divert part of their monetary flow to the payment of higher wages, to the

detriment of the growth of employment and of production in progress.

Unshakeable faith in restrictive policies leads some persons to advocate their persistent application until the labour force is completely mastered. Even if this took place and wages fell because of unemployment, however, the success would only be momentary, because with the subsequent improvement of employment the labour force would recover its trade union and political power and would again begin to exert pressure for higher wages. What use would the heavy economic and social cost of this policy then have been?

Monetary policy is also counterproductive when it is used to compensate for the creation of money caused by the fiscal deficit, which leads to a contraction in the amount of money available for the needs of private activity. If instead of this a more orthodox procedure is followed and recourse is had to taxes, the consequences are also adverse. If the costs fall upon the labour force and the latter has sufficient power to gain compensation for them, the taxes become inflationary, as already noted. And if they fall upon the upper strata, they have a negative effect on the accumulation of capital. There is yet another possible expedient: attracting public saving by raising interest rates, for which purpose bank interest rates are also raised, through credit restrictions. If this is done, then in the best of cases, even if it proves possible to reduce the fiscally generated inflation, this will only be achieved at the cost of compressing the global product and employment, as in the previous case.

Raising interest rates obviates the flight of resources to the exterior; moreover, in order to obtain Eurocurrency credits it is usual to place severer restrictions on credit in order to make these operations attractive.

This attraction of external resources obviously has inflationary consequences which counteract the domestic effects of the credit restrictions, as well as making the cost of working capital of enterprises excessively high and thus further accentuating the ill-effects. What is to be done, then, in order to contain price rises? The answer in the view of some, is simply to resort to overvaluation of the currency in order to stimulate competition from imports, to the

detriment of domestic production and exports. The effects of these monetary manipulations carried out under the aegis of the laws of the market are too well known for us to spend more time on them.

In short, although monetary orthodoxy and fiscal orthodoxy were effective in other times, they have now ceased to be so: the monetary authority has been knocked off his throne. This is the consequence of the changes which have taken place in the social structure as the technology of the centres has penetrated and the power relations have changed.

It will thus be understood that for those who attribute inflation to the trade union and political power of the labour force, it seems necessary to eliminate this power by interrupting the process of democratization and at the same time dismantling the State apparatus in order to make it "subsidiary". It cannot be denied that the restoration of the surplus in this way could have positive dynamic effects if the accumulation potential were devoted to productive investments. If this were done, it would gradually eliminate the exclusive tendencies of the system. Unfortunately, however, this has proved to be a tragic illusion, for in the very far from austere capitalism of the periphery, the restoration of the surplus flagrantly favours the privileged consumer society rather than the accumulation of reproductive capital.

There is no doubt in the minds of some that the use of the power of the State to compress wages can reduce domestically generated inflation. If such inflation continues, it is maintained, this is because the budget deficit persists, even though in these circumstances fiscal orthodoxy once more comes into its own. Other factors which frequently influence this state of affairs are the abuse of consumer credits or investments, or international inflation. In reality, the objective has usually proved to be not so much that of checking inflation as restoring the surplus through this compression of wages. Once this objective has been achieved, inflation once again becomes tolerable to the dominant groups, provided that the periodic adjustments of wages do not prejudice the surplus.

The power of the State is used in favour of the upper strata. This statement calls for an

explanation, because these strata include both productive entrepreneurs and financial entrepreneurs. An excessive rise in domestic interest rates over international rates considerably increases the power of the second group, and thus gives rise to an unusual dichotomy. On the one hand, the compression of real wages makes it possible to restore the surplus and favour productive capital, but on the other hand a frequently substantial part of the surplus is transferred to the benefit of the financial groups, thus strengthening their political weight. It can therefore be seen that the raising of interest rates is much more than a simple technocratic aberration.

The foregoing discussion on the ineffectiveness of monetary policy for containing the inflationary spiral leads us to emphasize the structural nature of the phenomena, which are beyond the reach of such policy in the course of the structural changes.

These changes and the changes in the power relations which accompany them increasingly tend towards a crisis of inflation. *In reality, the crisis is a consequence of the inner logic of peripheral capitalism, which does not obey any regulatory principle in the distributive struggle.* The counterpart of this struggle lies in the changes undergone by the social composition of consumption.

The increase in the private and social consumption of the labour force and the civil and military consumption of the State (and in its non-productive investments) do not take place at the expense of the privileged consumption of the favoured social groups, but are superimposed on it. Thus, the pressure of the labour force and of the State inevitably moves towards

a structural imbalance between the rate of consumption and the rate of accumulation of capital.

It will be understood, then, that although the crisis of the system is inflationary, it does not permit monetary solutions, as was possible in earlier phases of the structural evolution.

As already noted, monetary instruments are essential in the appropriation of the surplus and also in its defence, when that structural imbalance takes place. Their economic and social cost is considerable, however, since this defence requires unemployment in order to break the power of the labour force and make it shoulder all the consequences of the deficit: a solution which is not only not a real solution but also could not possibly last for any length of time.

Nothing lasting can be achieved without a rational transformation of the system in order to secure the macroeconomic regulation of the distribution of the fruits of technical progress, consumption and accumulation through proper planning of the use of the surplus. It should clearly be understood that it is not a question of restricting global consumption, but of changing its social composition. It is necessary to restrict it, it is true, in the privileged groups, so as to raise the rate of accumulation of reproductive capital and thus increase the consumption of the unemployed and of the strata of lower productivity. *This could not result from the market forces, but only from changes of great structural significance. There is no contradiction between these changes and the market. On the contrary, they could improve its economic efficiency and give it the social efficiency which it now largely lacks.*

IV

The structural imbalance with the centres

The rate of development of the periphery is limited not only by the insufficient accumulation of reproductive capital, as we have just explained, but also by the tendency to structural imbalance with the centres, with which we shall now deal.

This imbalance stems essentially from the historical lag in the development of the periphery, which, in turn, is explained by the centripetal nature of advanced capitalism.

Because of this centripetal nature, the centres are not interested in the achievement by

the periphery of development with deep social features; its development only affects them to the extent that it suits their own development, generally regarded from the viewpoint of the interests of their enterprises.

Such a downright statement calls for some justification. It is to be explained primarily by *the centripetal dynamics of capitalism in the advanced countries. In the final analysis, this dynamics comes from a persistent phenomenon in the development of the centres, where the fruits of their technical progress have been retained throughout their historical evolution.* No matter how these fruits may be distributed within the centres, they are in no case passed on to the periphery through the lowering of prices. *For better or for worse, capitalism has never functioned as conventional theories assume.*

This fact has had and continues to have profound consequences; in effect, the increase in the global product through unceasing increases in productivity gives rise to the expansion of demand within the centres themselves and continually stimulates the technical innovations which diversify goods and services. Likewise, these increases in productivity permit a considerable accumulation of capital in order to pay for all this. Thus, technical progress and industrialization have been concentrated in the advanced countries, leaving to the periphery the ancillary role of providing them with raw materials, with which the periphery pays from its imports of the manufactures it needs.

This is a very well known fact, but its consequences have not always been grasped in their true significance. *To begin with, the periphery remained on the sidelines of industrialization in the early development of capitalism and has since participated in the industrial trade of the centres only to a very limited extent. The periphery has not ceased to be peripheral, in spite of its industrialization.* It has still not been able to incorporate itself into the impressive technological advance of the centres. It is towards this goal that the progressive transformation of its production structure must be oriented.

The industrialization of the periphery was a structural requirement for development, al-

though it was initiated for conjunctural reasons mainly during the Great Depression, in order to counter the adverse consequences of the economic contraction in the exterior. *And it had necessarily to be carried out through import substitution. It could not be otherwise as long as the international system of trade and payments was split up.*

It was a structural requirement, because the exports of primary commodities could only absorb a relatively small part of the considerable proportion of the labour force which was excluded from the benefits of development.

There can be no doubt that if there had been any possibility of exporting manufactures, this should have been done at the same time as substitution, in those early days of industrial development. When this possibility did arise, however, there was generally reluctance to embark on exports, or even outright opposition to them: such was the inertia of substitution policy.

This inertia was finally overcome in the long period of extraordinary growth rates of the centres, which lasted up to the first half of the 1970s. It was then that the pendulum swung to the other extreme, as already noted. *There was noteworthy growth of exports of manufactures, while import substitution and the policy of developing trade in manufactures in the Latin America region lost momentum.*

This occurred in spite of the fact that the centres continued their determined protectionism against the manufactures which the periphery was now in a position to export just like its primary commodities. In contrast, the centres engaged in an intense process of liberalization of their industrial trade with each other over the whole wide range of goods which were continually being diversified through technological innovation.

Thus, just as the periphery had previously remained on the sidelines of industrialization, it was now barely able to participate in the flourishing mutual trade of those boom times of the centres. It was still far from being able to take advantage of the innovations of the centres in its own production, except in the case of a few goods where the innovations were no longer novel, since they had been overtaken by newer ideas.

It will be understood, then, that now that these times are over and the crisis of the centres has arrived, we are once again witnessing the persistent tendency towards structural imbalance. This tendency is explained by the relative slowness with which demand tends to rise in the centres for the primary commodities and industrial goods which the periphery could export on a large scale, in contrast with the ever-increasing intensity of the demand for the technologically advanced goods which we need to import from the centres.

Our own rate of development is now suffering the unfavourable consequences of the crisis which is affecting the centres. The growth rate of exports has suffered, and they are now insufficient to enable us to recover our growth rate and combat unemployment, while even less can we dream of raising this rate in order to absorb at a rising level of productivity the great human masses which have remained relegated to the bottom of the social structure.

Without prejudice to the conjunctural measures already mentioned, it is essential to impart new vigour to the substitution policy, while however seeking to overcome the fragmentation of our industrial process through trade. *It is not a question of reducing the imports from the centres below our capacity to pay for them, but rather of bringing them into line with the limitations of this capacity by changing their composition and eliminating from them those goods where we have already achieved or could achieve technological production capacity, so as to import other goods which, because of their advanced technological nature or because of our shortage of natural resources, are beyond our possibilities in our present stage of industrial development.*

Here we arrive at a very important aspect which is worth emphasizing because it continues to give rise to lamentable misunderstandings. *For a given rate of development of the periphery, the intensity of substitution policy depends fundamentally on the extent to which the centres respond to a sustained export effort on our part: that is to say, on their own growth rate and on the intensity of their protectionism.* Expressed in more recent terms we could say that the rational degree of openness of the periphery does not depend so much on its own

decisions as on the degree of openness of the centres.

The old principle of comparative advantages remains valid. From every point of view, it would be in the interests of the periphery to make a vigorous effort to export technologically less advanced goods in order to import other technologically more advanced products. This depends fundamentally, however, on the degree of receptiveness of the centres. When we only exported primary commodities, there could not be any comparative advantages in the export of manufactures, because there were simply no industries for producing them. Now that we are in a position to do so, however, *the limited receptiveness of the centres is a serious obstacle to the development of our comparative advantages.*

Development therefore calls for big changes in the production structure, and the question of whether these changes place the emphasis on industrialization for export as well as for satisfying domestic consumption, or on production for domestic consumption instead of promoting imports depends in the final analysis on the amount of our exports that the centres are willing to admit: that is to say, on our capacity for absorbing imports from the centres. In view of the limited nature of this capacity to import, we must use it in the best possible manner so as to make the changes in our production structure which are in keeping with the dynamics of our own development. *There is no question, then, of doing without the centres, since we need an enormous quantity of goods from them, as well as capital and technology, just as they need the periphery. But we must link ourselves with them in line with the requirements of our own dynamics and in keeping with our own decisions. This cannot be the spontaneous result of the action of the laws of the international market, where the technical and economic superiority of foreign enterprises is all too manifest.*

The historical lag in our industrialization, because of the centripetal dynamics of advanced capitalism and our technical and economic inferiority, prevented us in earlier times from developing our industrialization, and it is now preventing us from advancing in it unless there is reasonable protection for import substi-

tutes and a corresponding subsidy to promote exports of manufactures. There can be no doubt that this represents an economic cost, but it is more than offset by the fact that it makes possible a higher growth rate of the product than that which would result from the application of the laws of the market at the international level.

The belief has been spread around that it is better to seek this objective through devaluation of the currency within the play of the laws of the market. Devaluation is fully justified in order to take account of domestic inflation, but it is not a suitable instrument for industrial promotion, since it brings with it the relative deterioration of the prices of competitive exports. Moreover, it means altering all domestic costs and prices in order to influence a small proportion of foreign trade, while its effects can only be of short duration, because of the adjustments called for by the distributive struggle.

It is worth remembering that this deterioration has a structural explanation. It is due to the disparities in demand which go hand in hand with our backward level of development and have a decisive influence on the productive structure of the periphery. These disparities, in turn, are due to the great structural differences with the centres. This is why industrialization is indispensable. In earlier times it was thought—and there are some who continue to think this under the domination of the centres—that instead of industrializing to the full it would be better to increase productivity in primary activities. But what is to be done with the labour force which can no longer be absorbed by those activities? If it is used to increase primary production beyond the purchasing capacity of the external market, a tendency to a relative deterioration in prices will soon be shown. Industrialization is the prime form of avoiding this or at least reducing its seriousness. Protection, just like subsidies, helps to offset this tendency by diverting productive resources to industry.

A great contrast should be noted here. Whereas the centres retain the fruits of their technical progress, the periphery tends to transfer them because of its social heterogeneity and the disparities in the income elasticity of demand.

This tendency towards deterioration which is so adverse to the development of the periphery suits the interests of the centres, of course. Deterioration in other countries suits them, but not when it is in their own countries, because when it affects their own primary production they take resolute action to combat this tendency.

We noted earlier that the tendency to structural imbalance with the centres has once again begun to manifest itself with the adverse effects of the drop in their growth rate, aggravated by the high prices of petroleum imports. Moreover, as already noted, important conjunctural elements are in action in the centres, to which the periphery must reply with a similarly conjunctural policy. A clear distinction must be drawn, however, between this policy and the structural need to undertake a new policy of substitution of imports from the centres. The imports mainly concerned are intermediate and capital goods and certain goods resulting from technological innovations which are or could be accessible to us.

For economic and technological reasons, it is essential that this substitution should take place in a broader area than that of national markets. The centres have not favoured this type of co-operation among Latin American countries, and much less with other countries of the periphery. It is conceivable, however, that their enterprises might be interested in viewing it more favourably and in participating in this new and promising stage of industrialization of the periphery with their capital and technology, in line with suitable rules. Obviously, if they are given the choice between continuing to export certain goods and participating in their substitution, they will choose the first of these. But if there is firm determination on the part of our countries to formulate and put into practice substitution programmes aimed at broad markets, it is possible that the centres will not waste the opportunity to take part in this. The support of the Inter-American Development Bank and the World Bank would likewise be very important in this. As far as I can remember, the recent economic report of the latter organization represents the first time that it has mentioned the need for a substitution

policy and for the promotion of exports of manufactures.

It is necessary to take a broad view of these possibilities. These new forms of industrialization concerted between countries could constitute a very important step forward in our gradual incorporation into trade in technologically advanced goods with the centres. It should be remembered that import substitution was the prior step to the subsequent export of manufactures. Undertaking new forms of substitution and mutual trade within the Latin American area —without prejudice to certain trade possibilities with other countries of the Third World— could form the basis for this new type of international linkage. *Substitution industrialization, for all its faults, represented our response to the Great Depression. Industrialization in broader markets must be our response to the structural manifestations of the present crisis.* It could be a response offering great possibilities, if we proceed in a rational and determined manner with the firm intention of gradually abandoning our position as peripheral countries.

Up to what point is such an important structural change justified? Are we not perhaps exaggerating the structural nature of the crisis in the centres?

It is necessary at this point to make a brief reference to this crisis, which is far from having been clarified. I am inclined to see in the crisis of the centres, too, a case of structural imbalance between consumption and accumulation, due to the considerable changes which the power relations have undergone.

The extraordinary consumption of the upper strata tends to spread rapidly downwards, and there has been a very marked increase in social consumption through the State. The latter also labours under enormous and ever-increasing military spending, or, if preferred, military consumption. All these superimposed forms of consumption tend to weaken the rate of accumulation of reproductive capital.

The continuous growth of such capital is essential in order for employment and productivity to increase. Consequently, this weakening has had an unfavourable influence in this

sense, in addition to the effect of conjunctural phenomena.

There has thus been a disturbance of the ideal dynamic sequence of the system: increased productivity, greater accumulation, followed by a further increase in productivity.

How are we to restore this dynamic sequence? The only solution, in my view, is to change the social composition of consumption. It is necessary to slow down its growth among the most highly privileged —above all in the top strata— in order instead to accumulate more resources and increase employment and productivity so as to expand the consumption of the least privileged.

This is a solution which is apparently very simple, but politically very difficult: to such a point that extraordinary rises in interest rates have been resorted to in order to cover the fiscal deficit through saving, while simultaneously reducing private consumption in order to cover the heavy spending of the State. We already know what the consequences of this measure are.

This is not all, however. While on the one hand the rate of accumulation of reproductive capital has suffered, the substitution of imported petroleum and the campaign against degradation of the environment make it essential to increase capital formation in one way or another to meet the bigger capital needs per unit of the product.

I do not see in what other way it would be possible to solve this structural crisis. No doubt the increase in the rate of productivity thanks to technical innovations, which has already begun to be observed, will be a great relief, but it also requires increased amounts of capital.

These considerations lead me to believe that the estimates made by very well-informed sources that a low growth rate will persist during the current decade in both the main growth centre and in the other centres are probably very sound.

And if these estimates turned out to be mistaken? Would we have gone too far with changes in our production structure, and would we have to go back on the road we have followed? By no means: it would merely be necessary to reduce the intensity of new changes aimed at the domestic market and increase the orienta-

tion towards the exterior. In other words, we should practice a certain policy of greater openness on the basis of facts and not through the

imposition of doctrines which completely overlook structural disparities between our countries and the centres.

V

Reflections on the search for a new road to development

We must face up to serious conjunctural problems without having solved the great structural problems of our development. We have generally lost sight of the latter during the boom phases of the economic cycle, when some resources were available to set about their solution, but they have arisen once again in the phases of depression, when it is much more difficult to undertake profound changes.

This is what is happening now, with the further aggravation that rather than a cyclical downturn in the centres the situation is one of a structural decline in the growth rate. This fact, together with other adverse factors, means that there are external structural limits on any reactivation policy, as well as the internal limits.

Be that as it may, the conjunctural reactivation policy must be fitted into a structural framework in order to intertwine certain immediate measures with others which will take longer to bear fruit.

The structural problem of the insufficient productive absorption of the great relegated masses is aggravated by conjunctural unemployment, above all in those countries which, through their own policies, have provoked a contraction in their economic activity, with very serious social consequences. This is a very important reason for not putting the reactivation off any longer.

If it is not to bring about a perilous accentuation of the tendency to external imbalance, the reactivation calls for severe containment measures. We have unfortunately not yet arrived at really large-scale solutions as regards external indebtedness, and here the reactivation policy runs into a severe stumbling block. It is urgently necessary for the IMF and the World Bank to take this matter resolutely in hand by extending repayment terms and reducing interest rates, even through subsidies.

The balance-of-payments difficulties would thus become more manageable and permit the reactivation to be more extensive. Moreover, improvement of the capacity to receive new long-term external resources would give a positive impulse to programmes aimed at correcting the external structural imbalance.

From the internal point of view, the reactivation calls for the readjustment of the debts with the banking system as a matter of top priority, especially in the case of certain economic activities which have suffered particularly seriously because of the overvaluation of currency and the very high rates of interest. Time should be given to react, but only provided that these and other emergency measures are taken first.

In addition to certain selective import measures it is necessary to introduce a policy aimed at correcting the external imbalance of a structural nature. This calls for the energetic promotion of exports and the substitution of imports from the centres within larger spaces than the national markets. Private enterprises, and where appropriate the State enterprises too, are well equipped to do so in a harmonious manner together.

Anti-inflationary policy must also be carried out within a structural framework. Even if it is possible to reach consensus on an incomes policy, this will be socially vulnerable if we do not tackle in some way the problem of the economic surplus and its macroeconomic regulation. The surplus must be restored and increased in order to raise the rate of accumulation of reproductive capital, but this could not be done by making all the burden fall on the labour force. I have been repeatedly bringing in this matter in order to try to spark off the unavoidable discussion on this point. The labour force

must share in the surplus and in the responsibility for accumulation.

By way of conclusion, I would like to reiterate that in the past days of great prosperity of the advanced countries we did not clearly see the centripetal nature of their dynamics. The Latin American periphery, too, had extraordinary growth rates which had not previously been registered over such a long period. We therefore allowed ourselves to be dazzled, without fully realizing that our development did not interest the centres except to the extent that it suited their own needs, and the concern felt in earlier periods about the tendency towards external imbalance drifted away. In the correction of this tendency, the periphery has a fundamental responsibility. It must take advantage of the experience provided by a past which is still not so far off.

Our exports of manufactures began to show their potential, and we cherished the illusion, which is now rapidly fading, that there would be unlimited receptiveness for them on the part of the centres. Import substitution fell into singular disrepute, discouraging integration efforts even of a modest nature. It is quite true that the centres built up a very vigorous mutual trade in manufactured goods. The products involved, however, were new goods or new models of goods incessantly developed by successive technological innovations, and they were far from the reach of the Latin American periphery. It is in this type of goods that the comparative advantages of the centres lie: in opening up new fields of advanced industrialization and producing and trading every type of goods for which demand grew at an unusually rapid rate, urged on by these innovations and by the mass media. But the centres did not acknowledge and still do not acknowledge the advantages of the periphery as regards the production of those goods which, by virtue of the periphery's resources and the technology acquired by it, enable it to compete on an increasingly large scale in the markets of the centres. What a strange contradiction between the facts and the much-vaunted virtues of comparative advantages!

The old tendency towards external imbalance of a structural nature has once again arisen, and the centres have done nothing

worthy of note to co-operate with us to correct this situation.

Furthermore, those times of great prosperity accentuated to an impressive degree the imitative aspects of our development. We enthusiastically brought in the forms of consumption of the advanced countries, to the clear detriment of the accumulation of reproductive capital, which was also adversely affected by the relentless siphoning-off of income from the periphery by the centres.

The fate of the great masses of human beings relegated to the bottom of the social structure urgently called for an increase in the rate of accumulation of reproductive capital in order to raise their very low productivity and their scanty income, to say nothing of their dignity as human beings. We did not effectively attack the exclusive tendencies of the system in a manner in keeping with the magnitude of the problem and the rapid population growth.

After we had only gone a short way along our own road to industrialization, it became evident that the laws of the market, no matter how great their contribution to economic efficiency might be, did not lead to social efficiency. The spontaneous operation of the system is far from bringing about an equitable distribution of the fruits of technical progress, since this is prevented by the structural appropriation of a large part of these fruits by the upper strata.

On the other hand, as the process of democratization took place, the redistributive power of the labour force was gradually taking shape and acting as a counterweight to this power of appropriation of the economic surplus. This was essential in order to correct the fundamental inequality of the system, as also was the redistributive power of the State. With all its faults, the results were frankly favourable: there was a substantial improvement in the private and social consumption of the labour force, which was being absorbed in employment of rising productivity, although the presence of socially relegated masses at the bottom of the system continued.

This improvement and the growth of the State were superimposed however, on the privileged consumption of the upper strata. This process of sharing did not obey any regulatory

principle whatsoever. It did not owe anything to the free play of the market forces, in spite of the theories which claim that there is an underlying equity in their functioning.

This superimposition of different forms of consumption has gradually weakened the rate of accumulation of reproductive capital, although not of other forms of capital which lack the dynamic virtue of multiplying employment and productivity. This structural tendency to imbalance between consumption and investment culminates, through the inherent inner logic of the system, in persistent social inflation, where monetary policy inevitably runs into disastrous difficulties. It is simply not possible to substitute such a policy for structural changes which go to the very root of the conflictive tendencies in the system.

The centripetal nature of advanced capitalism is the principal source of the backwardness of our development, our economic and technological inferiority, and the economic fragmentation of the periphery. These are the conditions which have shaped both the past hegemony of advanced capitalism and the new manifestations of this hegemony. Certain theories which have been disseminated and continue to be disseminated on the periphery correspond to this. Whatever their scientific bases may have been in other times, they are now merely an expression of the fundamental lack of interest of the centres in anything which does not suit their own development.

So it was with the former system of the international division of labour, which is contrary to our planned industrialization. The insistence on this system also led the centres to deny that there is a tendency for the periphery to transfer to the centres the fruits of the technical progress in its own primary production: a tendency which only industrialization can counteract. It also explains their opposition to import substitution, until the transnationals found sources of advantage in this.

These transnational corporations were not, of course, an effective and decisive instrument of internationalization of peripheral production, as they generally pretended to be, but were rather agents for the internationalization of imitative consumption. Now, in more recent times, the periphery has fallen back incautious-

ly into a macroeconomic design involving the reduction of industrialization in favour of generous stimulation of imports, mostly of consumer goods, on the basis of the precarious resources provided by the Eurocurrency market.

What are we to say of the policy of economic contraction as a means of counteracting the external imbalance?

It should be understood that these and other lines of thought were promoted from other latitudes. But do those who have adopted them so enthusiastically on the periphery realize what they signify and involve for our development?

This is another of the flagrant manifestations of the hegemony of the centres: the intellectual dependence of the periphery. Please allow me to make a personal admission at this point. In those far-off days when I was a young man, I felt positive reverence for the economic theories of the centres. I began to lose this during the depression, however, and I have continued to lose it, so that very little of it remains. The centres are no longer a model for me. On the contrary, I think I have acquired an acute critical sense regarding what they do and think, for the impressive advance registered in other scientific disciplines has not yet reached that of the theories of development, caught as they are in the musty toils of the thinking of over a century ago.

How could I feel otherwise, when during the great depression I witnessed so many tremendous errors? In the main centre of capitalism, in the midst of a cyclical decline, the authorities brutally restricted credit and drastically increased protectionism, bringing economic contraction and unemployment to the entire world. Nothing was left at that time of the multilateral system of trade and payments, whose reconstruction was to last for many years.

All this must sound like a picture from other ages. The years of prosperity came, and we began to believe that we had really finally learned to regulate the economy of the centres. Until the present crisis in the centres rocked the entire world. This crisis does not represent the decadence of capitalism, but rather the unsuspected overflowing of its great vigour.

We have not yet found new channels for containing it.

This is a crisis of facts and of ideas. It was not possible to contain this overflow, nor the structural imbalances represented by the expansion of the money supply, which, after beginning in the United States, ended in the form of world-wide inflation. It is a structural imbalance which cannot be corrected, any more than other problems, through the wild raising of interest rates, which spreads unemployment throughout the capitalist world, with serious economic, social and political consequences.

The centres, too, must rectify the course of their development, but it does not seem that they are willing yet to do so. In spite of all their unfortunate consequences, however, crises often have the virtue of renewing ideas. I believe we are now more inclined to take the necessary measures, because we have longer experience of the great vicissitudes of development. I do not believe that orthodox socialism is outside this need for renewal either. Everywhere the active presence of the State is needed: not a subsidiary State, but one that regulates and promotes development, although not necessarily producing goods.

The quest for an economic incentive, inasmuch as it spurs the initiative of enterprises and individuals, is a powerful generator of efficiency and growth, but it does not solve the

serious problems which technology has brought with it as regards the environment, natural resources and social equity. This is where the State has an absolutely fundamental role to play, in a manner compatible with the market, with its great economic and political importance.

This is not all, however. The economic incentive increasingly goes beyond the sphere of business and penetrates into areas which it should never enter, because it perverts great values and degrades human fellowship.

No matter how effective the enterprise may be within the limited sphere of its own rationality, in reality it lacks a social and ecological horizon. Attaining such a horizon is an urgent task in the centres, and much more so on the periphery.

Consensus must go beyond the limited rationality of the market, for ethical objectives of an increasingly pressing nature are arising. Technology has an enormous potential for increasing human well-being, and has begun to show this in a limited portion of the planet. But it is running the imminent risk of losing this potential because of the limited rationality I spoke about. We must not do away with this rationality, but extend it to include those great objectives without which development cannot achieve true social legitimacy.

Adjustment, redeployment or transformation?

Background and options
in the current situation

by Pedro Sáinz*

Since 1973, the Latin American countries have had to adjust to a world economy and a world trade situation which are characterized by slow growth and instability in the central countries. Between 1974 and 1980, the region managed to remain relatively dynamic, considering the internal circumstances. Most governments seemed to take the attitude that the crisis was mainly conjunctural in nature, although they did acknowledge the existence of some structural elements as well.

In 1981 and 1982, as the signs of recession were accentuated, it became obvious that there were certain aspects of the crisis of the central countries that were definitely structural in nature. The region suffered simultaneously the 'impacts' of the deterioration of the terms of trade, the rise of protectionism and the increase of interest rates on an external debt which had grown excessively, especially as regards the short-term component thereof.

The author presents background information which should be useful in the redefinition of policies which is made necessary by the situation. It has now become evident that marginal changes will not suffice; the magnitude of the challenge has proved them to be of little use when they have been attempted. Hence the need to gather background information on the structural aspects of the situation.

Although in some ways the crisis is similar to that of the 1930s, there can be no question that today the region is quite different and that international relations are also different. The author therefore makes an assessment of the 1970s in order to reach conclusions regarding the structural conditions that exist at the beginning of the 1980s.

He then presents a brief description of the problems facing governments under the current circumstances. He also outlines two prototypes of policy options based on whether the crisis is considered to be conjunctural or structural in nature.

Finally, taking the long-term standpoint the author examines certain elements pertaining to economic dynamism, income distribution, external economic relations and the sectoral structure that should provide the framework within which economic policies for the situation may be outlined.

Introduction**

The serious economic situation in which most of the Latin American countries find themselves at the beginning of the 1980s is causing them to make more or less profound changes in their economic policies.

During the crisis of the 1930s, the countries applied certain economic policies which greatly influenced the subsequent development of the region; today, in the face of a dilemma in which some of the important features of that time appear to be reproduced, it seems essential to gather as much useful information as possible in order to study what policies should be applied in dealing with the current crisis.

In this paper, three types of information are discussed. First, an appraisal is made of the economic aspects of the 1970s; the results of this appraisal provide some of the data which must initially be borne in mind in designing a policy for the 1980s. Different positions have been taken *vis-à-vis* these results by those who stress the importance of transforming production and finding new forms of international insertion and those who emphasize the fact that structural problems still remain. For this reason, the first section is devoted to a review and assessment of the appraisals of the development process that were made during the 1970s, considering that we are now in a better position to look back at the decade as a whole.

In the second section, the current situation is discussed and an analysis is made of the factors that brought about the crisis, the main problems arising from it which require short-term solutions, and two strategic options to be used in considering the possible orientation of conjunctural economic policies.

Finally, some of the components that should be included in a conjunctural policy are explored from the standpoint of a vision of de-

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velopment which is aimed at solving the main structural problems that remain despite the sometimes profound changes that have taken place in the region.

I

Appraisals of development during the 1970s

A review of the numerous appraisals of the development process of the Latin American countries that were made during the 1970s will allow us to make some comments that might be useful in designing policies for the 1980s. Since different conclusions were reached in the different appraisals, we must in the first place set forth some of the criteria on which they were based. We shall then present the main conclusion of these appraisals, distinguishing between those which stress the successes achieved and those which refer mainly to negative results. This section concludes with an overall evaluation of the trends noted during the 1970s, for which we are able to take advantage of the hindsight we now enjoy.

1. *Criteria used in making the appraisals*

The diversity of the conclusions reached in the different evaluations is to a large extent a measure of the differences between the various criteria on which they were based.

The dimension of time is one of the most important of these criteria, as many of the evaluations were aimed at assessing the results of short-term economic policies. The conjunctural nature of these exercises is shown by the fact that they attribute a central role to the results obtained in aspects such as inflation, open unemployment or variations in the reserves. Other appraisals, on the other hand, concentrated on the structural aspects, assessing the changes brought about over the medium and long term and attributing special importance to factors such as the transformation of production, technological and social change and the nature of external economic relations.

The influence of time-oriented approaches in the evaluation of results becomes evident when one takes into consideration the sharp contrasts between different periods of the

1970s as regards short-term indicators—for example, in the economic growth and balance-of-payments series—and the factors implicit in those indicators, such as the international economic situation, socio-political organization and the principles guiding the international economy.

The model or pattern used as a standard for each appraisal also helps establish the differences between them. In this regard, there is great diversity: the evolution of the Latin American countries during the 1970s is compared with previous periods, or with what happened in the central countries, or even with paradigms taken from Marxism, neoliberalism or the CEPAL view of development.

Finally, another important criterion is that of the scope of the appraisal, which may be wide ranging and not be broken by social groups, if the object of the appraisal is the 'country as a whole', or, on the other hand, it may have a different scope if it assesses the situation of one or several specific social groups.

In considering the conclusions which are discussed below, it is important to bear in mind the differences between the criteria used and not to forget that the past decade was characterized by its contrasts. At the temporal level, there was a succession of periods of economic boom, contraction and uncertainty. As regards the orientation of policies, there was a wide variety of schemes, some of which were based on doctrines as disparate as Marxism and neoliberalism, and the contrast between the results obtained by different countries and social groups is no less sharp. Hence, in considering the successes and failures of the decade, it must be borne in mind that no general conclusions can be applied without proper study to any particular country.

2. *Positive and negative findings in the appraisals of the 1970s*

In the compilation of findings which follows, emphasis is placed on aspects of a structural nature. Although short-term results are also considered, those aspects have been selected which have persisted long enough to be viewed as conditions which might be carried over into the 1980s.

The positive aspects set forth in the appraisals show that, despite the difficulties encountered, economic growth did consolidate some productive, technological and institutional changes which, from the perspective of postwar proposals, unquestionably represent progress.

The most notable of these are the following:

(a) The great dynamism achieved by many countries of the region in the early 1970s. The growth rate of the regional product had been accelerating since the mid-1960s and during the early years of the 1970s the region's tremendous potential for growth was reaffirmed. In some countries and for some products, markets were large enough to create dynamic spaces suitable for carrying out efficient projects having broad scales of production.

(b) The relatively intense process of investment and productive and technological transformation in some of the regional economies which was reflected in the appearance of new branches of industry and modern agricultural and service enterprises, and in the expansion of the infrastructure. However, and especially in this regard, the disparities between countries were considerable.

(c) The capacity of the economic policy to seek new forms of insertion in the international economy. From the beginning of the 1970s, most of the external conditions created during that decade were reconciled with the transformation of production in order to alter the structure of exports, diversifying the basket of basic commodities at the national level and increasing its content of manufactures; then, when international liquidity increased, large amounts of external financing were attracted. For the period 1975-1981, the medium-term growth rates of the volume of exports rose in

most of the countries to the highest levels of the postwar period. This adjustment to the changing conditions of the international economy was often interpreted as a guarantee of the region's capacity to deal with difficult external situations. The policy followed made it possible to take advantage, depending on the circumstances, of the positive conditions of world trade or the abundant availability of financial resources.

(d) The capacity of the State to improve the operation of the markets, to modernize tax and financial structures, to establish and manage efficiently State enterprises that play a key role in the transformation of production, to maintain the major economic balances within acceptable ranges and to raise significantly the shares of the product earmarked for domestic savings and for investment.

(e) The resilience shown by many Latin American economies in preserving, after 1974, their overall industrial and economic dynamism, despite the limited growth of the central countries. Some Latin American countries kept their industrial transformation on the course previously followed, reducing the relative importance of the branches producing non-durable consumer goods and increasing that of the intermediate and metal-mechanical industries. This evolution made it possible, in many cases, to deal with the balance-of-payments problems through import substitution and the expansion of exports of manufactures. At any rate, it should be noted that the trend in another group of countries¹ was highly negative during the period under consideration.

The positive aspects noted above were countered by the inability of the region to alter long-standing social imbalances and imbalances in external relations.

Some of the main negative aspects stressed in the appraisals are the following:

(a) Contrary to expectations, dynamism and productive transformation were not sufficient to prevent the development of extremely unjust societies having a high concentration of

¹Argentina, Chile, El Salvador, Nicaragua, Panama and Peru.

wealth and income, high unemployment rates and a large segment of the population living in poverty. A significant part of the transformation of production was channelled towards meeting the consumption requirements of the high income strata, strengthening the transnational corporations and thus giving rise to a highly dependent technology and to balance-of-payments problems.²

(b) The rate of economic growth noted in most of the Latin American countries during the second half of the 1970s declined and its recovery seemed limited by factors of instability and uncertainty which were to a large extent linked to external variables.

(c) Despite the progress made, the transformation of production did not include a sufficient degree of vertical integration; this is evident in the lag in the production of intermediate and capital goods. The inadequate degree of internalization and technological development played a major role in this lag. At the same time, the meagre success of the efforts made to find formulas for bringing the interests of the transnational corporations in line with those of the Latin American countries has made it even more difficult to solve these problems.

(d) The structure of external relations is still asymmetrical, both as regards the nature of the flow of exports and imports and as regards the unfavourable trend in the terms of trade in the non-oil-exporting countries; to this is added the external indebtedness, its real and financial effects on the real national income, and the deterioration of the balance of payments. All this leads to an extremely vulnerable and unstable economic growth process.

In view of many authors, the accentuation of this asymmetry is due to a large extent to the transnationalization of the economies. The role of the transnational corporations is increasing in importance and many of the economic flows recorded as flows between States actually take place within a single economic agent which acts independently of national boundaries.

² See, for example, Luis Claudio Marinho, "The transnational corporations and Latin America's present form of economic growth", in *CEPAL Review* No. 14, August 1981.

3. *The appraisals viewed from the perspective of the 1980s*

The successes and failures noted in the appraisals made during the 1970s may now be re-interpreted from the improved perspective of the 1980s. Thus, we shall examine the continuing validity of these findings, the positive factors carried over from the 1970s into the 1980s, and the problems of the early 1980s which remain unsolved. This will enable us to make some preliminary comments.

In the *first place*, underlying many conjunctural appraisals is the external situation which often is not considered explicit enough during boom periods and the impact of which is underestimated during difficult periods. Because of the difficult international economic situation, in many countries the optimism of the early 1970s began to pale and by the end of the decade had changed to pessimism. During the triennium 1971-1973, the rapid growth of world markets and the improvement of the terms of trade created a feeling of optimism regarding the possibilities that were opening up for the countries of the region. As a long-standing policy of industrialization and modernization matured, most of the countries were able to support a new and more diversified export structure that included increasing percentages of manufactured goods; as they were freed from the restrictions brought about by a relatively rigid external supply, they were able notably to accelerate their economic growth.

Beginning in 1974, the external situation began gradually to deteriorate, especially in the non-oil-exporting countries. Nevertheless, an abundance of external financing and a rapid increase in exports made it possible to maintain external balance; the countries were thus able to keep their imports at acceptable levels and, in this way, to sustain the level of internal activity. Towards the end of the 1970s, both these mechanisms began to lose their effectiveness. On the one hand, the rapid growth of the debt and the changes in credit terms and interest rates meant that interest and amortization payments absorbed increasing percentages of the purchasing power of exports. On the other hand, the deterioration of prices for basic commodities eventually counteracted the ef-

fect of the large increase in the volume of exports. Moreover, the considerable increase in net external financing was accompanied by a radical change in the sources of such financing. Indeed, from the 1950s to the early 1960s, the bulk of capital entering Latin America had come from official sources, with long repayment terms, and, part of it consisted of direct investments. During the 1970s, on the other hand, a large share of such financing came from private banks and commercial sources; it consisted of short and medium-term loans and was subject to constantly increasing interest rates. The shortening of repayment terms and the rise in interest rates increased at the beginning of the 1980s, reflecting the fact that the region is in a clearly asymmetrical position with regard to the international financial markets.

As a result of this trend, one positive factor that remains is the new structure and level of exports. Despite the repercussions of the current unfavourable situation on the export-oriented sectors of production, in many cases markets have been opened up and consolidated and, in macroeconomic terms, the increasing deterioration of the region's share in world trade has been stopped. On the negative side, it should be noted that the new financial insertion has accentuated the asymmetry of external relations and has transferred to the domestic economy, and often increased, the more unfavourable effects of the recession of the centres.

In the *second place*, as has been mentioned above, the changes in economic policy were judged in positive terms—because of the role they played with regard to productive transformation and external insertion—and in negative terms because of their inability to solve social problems and because of the continuing asymmetry of external relations. Beyond these judgements, it must be stressed that quality of the management capacity attained during the decade, which underlay these successes and failures, depended on the orientation of the economic policy followed.

The economic policies of the 1970s combined in very different proportions various forms of State intervention, which we shall call active and passive. The active ones are those which contribute to the strengthening of public

institutions and public intervention policies. Concrete examples of this form of intervention are the creation of State enterprises concerned with exports (promotion, marketing, financing, negotiation and opening up of markets) and with production in key sectors of the economy, the establishment of policies providing for subsidies and incentives to production, and the monitoring of the activities of the transnational corporations (including the amounts, terms and channelling of external financing). On the other hand, the passive forms of intervention are those which tend to reduce or eliminate the activity of public institutions in order to facilitate the action of domestic and foreign private agents. Some examples of this are the policies providing for the liberalization of foreign trade and of the financial sector and the opening up of the financial sector to the international banks.

A study of the Latin American countries will reveal the distinction between those policies where the active elements were predominant and those where the passive elements were predominant. Although some hold the view that there was no substantial difference between them, because of the decisive influence of external agents on State action, it should be stressed that the economic results were clearly different.^{3, 4}

The countries which applied mostly active forms of intervention during the period 1974-1979 followed a State policy aimed at promoting industrialization and the modernization of other sectors. This policy was aimed at co-ordinating the recent insertion into the international economy with the expansion of production. Thus, part of the investment in industry was oriented towards taking advantage of both domestic and external markets, external financing

³Ten Latin American countries representing nearly half the population of Latin America in 1975, in which the State plays an important role in industry, either through direct action or through promotion, achieved average annual growth rates in the manufacturing sector of between 5.7% and 12.1%.

⁴According to other criteria, the spread of transnationals has also been classified as either active or passive. See, for example, Raúl Trajtenberg and Raúl Vigorito, "Economía y política en la fase transnacional: reflexiones preliminares", in *Comercio Exterior*, Vol. 32, No. 7, Mexico, July 1982.

or surpluses were used to support a relatively explicit productive transformation project and, in general, the financial sector was better balanced with the productive sector, when it was not subordinated to it. Despite the fact that the change in the international scene of the 1980s produced a disarticulation of this policy and prevented most of the countries following it from maintaining their previous growth rates, there is no question that the organization of the State places them in a better position to establish development policies than is the case with those countries where the passive forms of intervention were predominant.

In the *third place*, despite the disparity between countries and periods, it was clearly shown that the region possesses a considerable potential for transformation and economic growth. In certain periods—for example 1970-1974—the region grew at rates of close to 7.2%,⁵ thus demonstrating its great capacity to absorb investment and to balance the growth of domestic and external savings. Throughout the decade, certain productive branches of the industrial sector were strengthened, part of the agricultural sector was technified and diversified, and commercial and financial services were modernized.

In many appraisals, the view is taken that most of these transformations, as well as the economic dynamism, were brought about by internal and external economic agents which used the changes to gain greater control over the rest of the society. This is not the view expressed in other appraisals, which dispute the statistical quality of the indicators used to measure the concentration of income and of wealth or consider concentration as an inevitable stage in the process of growth and economic transformation. What should be stressed here is that, even if one accepts the first view, it seems reasonable to hold that the point of departure makes it possible to reach higher levels of production with a more complex structure. Moreover, since an appreciable percentage of the infrastructure and of the productive capacity created can be used in a relatively flexible

manner, they may also be useful in very different development patterns.

In brief, with a higher material base and with the region's demonstrated potential for economic growth, it is possible to think in terms of much more ambitious development strategies based to a greater degree on the internal development capacity of the countries.

Nevertheless, and in the *fourth place*, the most important conclusion to be drawn, from the perspective of 1982, is concerned with the persistence of the structural problems of Latin America. The deterioration of external conditions showed that:

(a) The changes which took place in commercial and financial relations did not change the asymmetry of external relations, but instead strengthened it.

(b) Economic dynamism did not create the internal foundations the region needed to protect itself to a reasonable degree from the periods of sharp depression in the centres. Between 1974 and 1980, the region seemed to have attained a degree of autonomy that would enable it to maintain relatively high growth rates, although it was affected by the fluctuations in the centres and in their growth rates. Events have shown that external indebtedness had played a greater role in creating this presumed protective capacity than had been acknowledged in many appraisals.

(c) The inequality in the distribution of political and economic power among the various social groups has either continued or increased; likewise, the inequitable nature of Latin American societies has been evident in the distribution of the costs of the crisis.

These preliminary remarks provide some background on the issues that should be considered in designing a strategy for the 1980s. On the one hand, the structural problems have persisted, albeit under new conditions and in new institutions; macroeconomic and institutional tools put into use through existing public and market mechanisms are in and of themselves inadequate to overcome social inequities, the high degree of dependence on the exterior and the instability and vulnerability of economic growth.

Moreover, the region might lean more

⁵ Estimated at 1975 prices. Taking into account only the non-oil-exporting countries, the annual growth rate was over 7.5%.

heavily than it has to date on its internal potential for growth and transformation. A material and institutional base has been created which, if used for other goals, could significantly reduce the problems affecting the most backward strata of Latin American societies. The poten-

tial for development which this material base provides could be considerably reinforced if the countries utilized it in a more co-ordinated fashion; this in turn would enable them appreciably to increase their autonomy with respect to the exterior.

II

The current situation

1. *Background of the current crisis*

Having explored the positive and negative long-term aspects of the trends noted during the 1960s, we must now look at the current situation from the short-term viewpoint.

The crisis which began in 1981 and was in full swing during 1982 originated from external disequilibria. The region had satisfactorily withstood the sharp deceleration of growth in the developed countries between 1974 and 1980, but the policies used then did not bring success in dealing with the current crisis.

Several factors worked together to bring about the current situation of sharp external disequilibrium. As mentioned previously, the region had been dealing with its external problems through both an increased indebtedness and an accelerated growth of exports. The second rise in oil prices and the new economic policies of the Reagan administration in the United States, among other factors, affected the growth of the value of exports because of the drop in real demand and in prices. Moreover, the export promotion mechanisms that had been operating actively to take advantage of the strengthening of productive capacity turned out to be inadequate because of the increasing protectionism of the centres. Then, the rise in interest rates significantly increased the cost of servicing the external debt. These events occurred at a time when the level and the profile of indebtedness had already, in 1978,⁶ led CEPAL to foresee that it would be impossible

to maintain the trend of the second half of the 1970s. Indeed, it would have been difficult to maintain the ratio between the service of the debt and the value of exports in view of the situation with regard to the external demand, interest rates and overdue loans.

The external disequilibrium was transferred to the Latin American economies by mechanisms that either did not exist or were not widely disseminated in the early 1970s. During the 1970s, the region was rapidly integrated into the international financial system under circumstances which were clearly asymmetrical. The loans received from international private banks were transferred to the national productive sectors quite flexibly, although sometimes on unfavourable terms. Thus, a high percentage of Latin American enterprises was directly subject to the conditions of the international financial markets and to fluctuations in the exchange rate. Likewise, in 1981 and 1982, the international financial crisis and the external disequilibria of the countries also affected certain sectors that had very few trade links with the exterior.

As the seriousness of the situation became evident, there began in 1981 a gradual disarticulation of the policies that had made possible the type of external insertion that was typical of the 1970s. There was a spate of devaluations, rises in tariffs and other measures aimed at palliating the external commercial disequilibrium, although the increased efforts to protect the countries with regard to external trade has deepened the financial crisis for many enterprises. The ambivalent impact of these measures on business has made it necessary to take additional action, such as the creation of diffe-

⁶See, for example, "Tendencias y proyecciones de largo plazo del desarrollo económico de América Latina", *Cuadernos de la CEPAL*, Santiago, Chile, 1978.

rential exchange rates for the payment of debts and different types of moratoria or State subsidies for debtors.

The economic situation varies from one Latin American country to another. In most of them, the external disequilibria go hand in hand with a drop in the level of economic activity and, in some cases, there are also sharp increases in inflation or unprecedented levels of unemployment. Despite these differences, action by the public sector is increasing everywhere without regard to ideological considerations, and a new economic situation is beginning to take shape in which there is an alteration both of the distribution of functions as between the public and private sectors and in the economic parameters within which the agents must act. Latin American economic history once again shows how much depends on the direction and magnitude of public action in this type of crisis.

In view of the above, it is worthwhile to summarize those problems that are perceived as urgent in the current situation and look at the framework in which they are viewed and the strategy to be chosen in dealing with them.

In a crisis situation, there are usually certain imbalances, financial or real, external or internal, of such a magnitude that it becomes essential to find a quick solution to them; what is important is to remember that such a solution is far from being the only one and that the solution adopted will have quite a different effect on the structural problems faced by the economies. Thus, the consistency of the short-term policy will depend on the long-term vision with which the numerous emergencies characteristic of such situations are met.

2. Short-term public action

As has been mentioned repeatedly, the countries are faced with serious structural problems that give rise to conjunctural disequilibria which are accentuated in times of crisis. Some of these conjunctural problems are evident in almost all the Latin American countries and, because of their seriousness, require an urgent solution.

(a) Renegotiation of the debt

The service of the external debt as envisaged for 1982 and 1983 is of such a magnitude that it cannot be met, especially in view of the circumstances surrounding external trade that are described above. The solution is to renegotiate the debt, for the previous situation of abundant supply, when new loans amply covered interest payments, has changed radically. Those countries which must cover a substantial portion of the debt in one or two years are in the most serious trouble; in such cases, the classical solution of paying the interest and renewing the debt does not work and consequently they must now replace the current debt with another one having a longer term. The conditions for renegotiation that the external agents might try to impose could reduce a country's manoeuvring room, therefore, action by the public sector, at the national or international level, is essential in dealing with this problem.

(b) The crisis of the external financial sector

Because the internal financial crisis has spread to most sectors, many enterprises have become insolvent. There has been a mutual feedback between the internal financial crisis and the slowdown of activity. This has accentuated the problem for business and often the market has not offered any solution to the disequilibria other than bankruptcy. A more or less profound intervention on the part of the central bank is becoming essential to restore the normal operation of the productive system.

(c) The depression of the productive system

The years 1981 and 1982 were characterized by a considerable slowdown of economic growth and in many countries by a vertical drop in the level of the product, so that open unemployment and underemployment have increased notably. Public action is required to reduce the deficits on the trade balance, although, since it is quite unlikely that exports will increase significantly, there is the problem of reducing imports with minimum effect on the level of domestic activity. Expenditure must be reoriented towards activities that will put less pressure on the level of imports and imports must be controlled if a level of activity

or employment compatible with a non-repressive policy in the political sphere is to be maintained.

(d) *The boundary between public and private activity*

The degree to which the State does or should intervene to deal with the crisis brings out in the open a dilemma regarding the protection of public interests. There are cases when, in order to keep an enterprise in operation, the public sector must provide, on very favourable repayment terms, financial resources that are almost equal to the capital of the enterprise. In order to guarantee the proper use of such resources, the State must create control mechanisms. When the government provides a large proportion of a company's capital and takes over central aspects of its administration, the borderline between this situation and the management of a public enterprise becomes hazy. In other cases, the operation of the market does not suffice to control the imbalance, e.g., with regard to crises in the exchange rate, and State intervention involves an implicit transfer of large amounts of resources between economic agents. The use of such resources for purposes other than those pursued by the State might be contrary to the public interest and changes might have to be made in the delimitation of the public and private sectors. Finally, during periods of crisis it is usually necessary to adopt measures that entail great commercial or financial risk and the private sector is usually not prepared to assume those risks under such unstable circumstances. In such a situation, the government must redefine the boundaries between the public and the private sectors and take emergency measures as well.

The public sectors facing these conjunctural problems have started out from very different positions, which should be borne in mind before strategic options are proposed. There are public sectors in which State intervention was active during the 1970s and which therefore have a vast institutional arsenal in the fields of investment, production, finance and external trade. Other governments, however, have concentrated their action on the more aggregated instruments of macroeconomic policy. Dif-

ferent governments are also in different positions with regard to the balance of payments: some still have a considerable export potential while others seem to have reached the limits of their installed capacity. There are also contrasts in the capacity for reducing imports and in the relative importance and the profile of the debt and the service thereof. Despite the aforementioned disparities, the great majority of countries have serious internal and balance-of-payments problems and the differences noted have a bearing more on the possibilities for action than on the existence of difficulties.

3. *Long-term frameworks for short-term problems*

Because of the many different policy measures that governments must take to solve the wide variety of problems with which they are faced, they must devise an overall framework to give such policies consistency. Moreover, because of the very nature of the problems, certain measures will have to be taken which will gradually determine long-term development; viewing such measures within a long-term context will make it easier to appreciate their full implications. Hence, a long-term framework will be essential to the definition and study of short-term policy options.

We shall describe only two types of strategy options to illustrate the long-term considerations on which a short-term position must always be founded.

Under the first option, public action is guided by the conjunctural approach and the attitude towards external circumstances is passive. This option would be taken by countries where the public sector had a limited capacity for intervention or those whose governments assigned a high value to liberal mechanisms and to the operation of the market within those mechanisms. When this option is taken, the form of external insertion of the 1970s is not questioned; rather, the aim is to alter it as little as possible with a view to returning to it when the central economies—and with them international trade—recover.

Within this line of thinking, public intervention must change the allocation of resources arising spontaneously from the market as little

as possible and new trends must be expressed through the market. Thus for example, a devaluation should transmit enough internal signals to make it possible to reassign resources between production for the domestic market and production for export, making any kind of control or foreign trade subsidy unnecessary. Moratoria in the payment of the external debt should take the form of long-term renegotiations within the parameters of the financial market itself and aid to the most seriously affected sectors should not involve profound changes in the structure of distribution. In this type of option, any discussion is of a practical nature, because the central objectives of the development pattern are not questioned. The inherent primacy of market mechanisms underlies this option and interferences in the operation of those mechanisms are accepted only temporarily; they would be considered unnecessary in the absence of factors of rigidity such as the refusal of entrepreneurs to declare bankruptcy or of workers to accept wage cuts.

The second option is based on a different interpretation of the situation and involves making substantial changes in current development patterns. In the view of those who take this approach, the current crisis shows once again the inability of the central countries to maintain a stable growth in the level of world activity and trade. The deterioration of the terms of trade in the periphery once more shows that in the trade of basic commodities and industrial goods, those who specialize in commodities are at a disadvantage and that it is the countries that are better able to protect themselves that are in a position to export manufactured goods. The instability of the market for basic commodities and the benefits which the developed countries obtain from the decline in the terms of trade when the markets suffer contraction, are viewed as structural characteristics of the present world trade system. The fact that the countries of the periphery have little or no influence in the establishment of real interest rates, the terms under which external financing is granted or decisions regarding monetary policy reflects the **asymmetry** of external economic relations. The transmission of the high interest rates makes it almost impossible to find productive investments that can

compete with speculative investments and the resulting slowdown of domestic economic activity and the high unemployment rates of the Latin American countries show how extremely vulnerable the region is to external conditions. Finally, the fact that the system has very little capacity to distribute equitably among the different social groups both the cost of the crisis and the fruits of the growth of the boom period, is a confirmation of its inability to solve the problems of distribution. Hence, those who take this approach no longer hold to the illusion of the early 1970s regarding the productive and distributive potential of full insertion in world trade or the value attributed subsequently to full participation in the new international financial system. They do not think that the world trade boom of the 1970s can be repeated or that external financing can be used to the extent, in terms of percentage of the product, that it was during the period 1974-1980. Hence, they consider that the approach must be different from that of the 1970s and that the elements of dynamism must be found within the Latin American countries and the region. It will be important, however, to retain all those elements that demonstrated the region's potential for mobilizing resources and penetrating external markets.

Economic reactivation will thus cease to depend solely on the reactivation of the developed countries. It will depend, first of all, on the capacity of public policy to establish more stable, dynamic and fair regional and national markets and to encourage those activities to which priority is assigned. In the second place, it will depend on the collective capacity of the region to restore suitable external conditions. This will involve collective negotiations regarding the general terms of external financing and protectionism and the building up of more effective regional co-operation in the fields of trade and finance.

The establishment of markets is aimed at implementing a policy for the redistribution of income and consumption that will equitably spread out the deterioration of real income and guarantee a minimum degree of stability in the operation of the market. In order to ensure greater stability, it will be important to make clear, among other parameters, to what extent

domestic activities will be protected or neglected; this also refers to the government's attitude regarding changes of policy in the developed countries (protectionism and subsidies).

To guarantee a greater degree of autonomy and symmetry in external relations, a long-term policy regarding the transformation of production must be designed. The State should play an important role in the stages of definition and execution of such a policy.

The emphasis given under this option to structural issues should not be construed as indicating a lack of concern for conjunctural problems; on the contrary, the solution of such problems should constitute a first step towards structural change. Indeed, the new delimitation between the public and private sectors, the full or partial operation of market mechanisms, the degree of protection given to the productive sectors, the deliberate action of public agencies and enterprises—using indicators other than the current erratic prices of world trade and real interest rates rather than those of late 1981 and early 1982—constitute basic in-

redients for the solution of the problems pertaining to reactivation and to the balance of payments.

Thus, under this second option, the current crisis is viewed as yet another demonstration of the inability of the current forms of international insertion used by the region to solve its structural problems and an active national and regional policy is proposed in order to bring about fundamental changes in the development pattern.

Finally, it should be mentioned again that both the definition of the problem and the policy options presented in this article are generic in nature and do not refer to any country in particular. At the national level, both tasks should be undertaken with due regard to the circumstances that are specific to each country, such as its economic and social systems, the organization and scope of its public sector, and the participation of external economic interests as well as to the differences between countries as regards size of the population and the economy and the availability of resources.

III

Structural elements in the solution of the crisis

The economic crisis of the period 1981-1982 is without a doubt profound and far-reaching. In 1982, the service of the debt in many countries will exceed half the value of exports and the situation will deteriorate for as long as the prices and volume of exports continue to drop while interest rates rise and the proportion of the short-term debt increases. Not only is inflation higher than 50% per year in several countries, it is rising rapidly in most of them, open unemployment is in the two-digit range and activity is slowing down seriously in many branches of the economy.

The policy measures that are being adopted also give an indication of the seriousness of the crisis: one devaluation follows another and over a period of one year they amount to or are close to 100%, the money stock is growing rapidly, tariffs are being raised and high subsidies

are being granted to major sectors of the economy.

Under such circumstances, the measures that are being taken to deal with the crisis will inevitably produce results of a structural nature. Indeed, many branches, if not sectors of production, are being seriously undermined and the relative position of the economic and social groups is changing significantly. Moreover, if the structural nature of the crisis is not recognized in time, especially if the problem is viewed as being of a temporary nature, the situation will deteriorate very seriously. What usually happens in such cases is that radical measures are eventually adopted which only deal with the problem piecemeal and do not take into account what should constitute a comprehensive strategy for facing the crisis. Thus, for example, when economic and political pres-

asures made it necessary to apply heavy devaluations to solve the balance-of-payments crisis, the solution of which had been postponed, they caused serious financial imbalances, explosive inflation, and rising unemployment, as well as other undesirable effects whereby the problems were transferred to another sector of the economy without any overall approach having been taken to deal with them.

In mid-1982, the situation of many countries was such that the instruments of economic policy could no longer be applied in a marginal fashion and it was becoming increasingly evident that a structural framework was needed with which to manage economic policy, in other words, a medium and long-term vision of the international situation and of the domestic problems pertaining to which priorities might be established, at least in connection with the sectors or branches of production which were to be protected against deterioration or disappearance, and the distribution of costs among economic and social groups. Likewise, policy schemes should be established for attacking the problems with some degree of simultaneity; in this regard, it should be recognized that in view of the magnitude of the disequilibria, the economy cannot function the way it did before the crisis and that, therefore, instruments that might be effective in more normal times cease to be so and in critical times may even be inefficient.

Following is some background information which may be useful in devising a structural frame of reference for a policy option of the second type described above, i.e., an option based on the view that the current crisis of the central countries is not conjunctural in nature and aimed at solving the problems of social equity and the lack of dynamism which affect the Latin American countries.

The Economic Projections Centre of CEPAL⁷ has prepared several studies which explore aspects relating to economic dynamism, income distribution, external economic relations and the structure of production, analysing the requirements and possibilities for

achieving a more dynamic, equitable and autonomous development. This information should be useful in studying the extent to which current public action might be oriented towards structural considerations rather than merely conjunctural ones. In the first place, a review is made of some ratios and orders of magnitude pertaining to economic dynamism, employment and underemployment, sectoral productivity and redistribution policies; then, a study is made of the orientation that is desirable for a trade and external financing policy in order to achieve greater economic dynamism and greater autonomy in the decision-making with regard to the exterior; finally, an estimate is made of the needs for industrialization that are implicit in this strategy and some questions are raised regarding certain key subsectors.

This background information should be interpreted as an exploration into orders of magnitude, prerequisites and restrictions which is designed to provide guidelines for the State intervention which seems inevitable under present-day conditions.

1. *Dynamism and equity*

One of the central problems with the development pattern being applied in the great majority of the Latin American countries is that it leads to the formation of unjust societies. We shall not stress here the controversial subject of how the distribution of wealth and of political power influenced the distribution of income, but shall limit ourselves to pointing out two elements we consider vital in determining the basis for which any redistribution policy, i.e., employment and sectoral differences in the product per employed person.⁸ This does not imply disregard for the fact that distributive policies and, especially, profound political changes can bring about substantial changes in the distribution of consumption and income; rather, the aim is to describe the challenge with which the policy chosen must deal, beginning with the current situation in which the families

⁷ See, especially, "Latin American Development Projections for the 1980s", *Estudios e Informes de la CEPAL* No. 6, Santiago, Chile, October 1981.

⁸ The ideal would be to have some way of measuring marginal productivity; as an approximation, we shall use the product per employed person, which is representative of average productivity.

that are suffering the most are associated with the sectors where unemployment is high and the product per employed person is low.

If a minimum acceptable level of productive employment is to be established, the level of activity must increase. In previous studies, CEPAL has already stressed the unusual challenge which the need to provide jobs for a rapidly growing labour force represents for the region.

In this exercise, the labour force has been estimated on the basis of population data which make it possible to estimate the active population; the proportion of the active population that enters the labour force is the result of complex mechanisms linked to different factors, such as the labour market, the age structure of the population, its geographic location (particularly with reference to urbanization processes), the type and duration of education, and the participation of women in the labour force. In the projections, conservative parameters have been used which are based on the assumption that the percentage of the active population joining the labour force does not increase much over time.

The product per employed person has been estimated separately for the different sectors of the economy and the level is assumed to depend on the level of income and on the trend in the product per employed person in countries having a high income level, from which a substantial part of the capital goods and technology used come. Quantitative estimates for countries and sectors have been made, by using econometric methods, on the basis of data on central countries and Latin American countries.

In accordance with these criteria, the regional growth rate of the labour force has been estimated at an average of 2.8% per year for the 1980s and around 2.5% for the 1990s. As mentioned above, the growth of productivity depends on economic dynamism. Disregarding the particular features of different countries and sectors, it is estimated that in order for the per capita product to grow by 3.3% per year—a rate similar to that of the 1960s—the product would have to grow at the rate of 5.9% per year during the 1980s, and a growth rate of 4.2% for the per capita product would call for an annual

growth rate of 7.3%. In the first case, open unemployment would be in the order of 10% and in the second case, in the order of 5%.

This first fact gives an idea of the effect capital accumulation and economic dynamism have on employment.

If we consider 5% to be the maximum acceptable rate of open unemployment—and bear in mind that a rapid increase of the product per employed person over a period of ten years would reduce to an acceptable magnitude the difference between the central economies and the Latin American economies—we may reach the conclusion that 7% is the minimum acceptable long-term growth rate for the region.

If the per capita product were to grow in the manner postulated above, this would present new challenges relating to distribution because, as is well known, there are at the present time considerable differences between sectors as regards the product per employed person. Indeed, according to a rough estimate, the product per employed person in the agricultural sector represents around 30% of the average for the economy, in the manufacturing industry it is practically double the average, in the other goods-producing sectors (mining, quarrying and construction) and in basic services it is 50% higher than the average, and in all other services, it is close to the average.⁹

The acceleration of growth under the conditions described above would tend to aggravate some disparities, particularly because of the rapid growth of the product per employed person which is to be expected in manufacturing and in basic services. In respect of the average, the position of these two sectors would improve even more, while the services sector, excluding basic services, and agriculture would see their position somewhat worsened.

The main changes in the structure of employment would still be, fundamentally, a transfer from the agricultural sector to the services sector (excluding basic services). The current agricultural employment rate of 36%

⁹It should be borne in mind that when the product per employed person is used without regard to the relationship between capital and labour, the wrong conclusions may be reached for particular branches. However, for aggregated sectors, the macroeconomic figures are close enough to show the overall picture.

would drop to 31%, while the rate for services, excluding basic services, would increase from 38% to 43%. The manufacturing sector would maintain a share of close to 14%.

Under such circumstances, the region would have a new structure of employment and of the product per employed person. A better distribution of income would be fostered by the reduction of unemployment and underemployment and of the percentage of the population employed in agriculture; on the other hand, the growing discrepancies in the product per employed person would produce the opposite effect.

These global figures, despite their being aggregated, make it possible to appreciate the magnitude of the challenge. The difficulty of achieving long-term annual growth rates in the order of 7% is a mystery to no one. Although, as has been explained above, this dynamism would alleviate the problems of unemployment and underemployment, it would at the same time make it absolutely essential to take other measures relating to redistribution and to capital accumulation. If the Latin American economies were to continue distributing income among social groups and between consumption and savings according to the patterns of the past decade, they would in many cases be faced with excessive needs for external savings and with increasingly unjust societies. Neither the market, which in the words of Raúl Prebisch was neither a temporal nor a social horizon, nor current public policies are capable of achieving both the growth objectives and the equity sought. Hence the imperative need for new policies especially designed to attract part of the value added in those sectors where its value per employed person is higher and grows more rapidly, so as to ensure that a substantial part of this income is channelled in the right direction.

2. *External economic relations and the structure of production*

The increased economic dynamism and the problems now facing trade and external financing call for changes in external economic relations; such changes, in turn, cannot be carried out without affecting to some extent the

internal structure of production. Following are some considerations to be borne in mind in formulating a proposal for new internal structures of production and new external economic relations.

The evolution of foreign trade and the productive structure of the Latin American countries in the postwar period have been dealt with in detail in other CEPAL documents. One of the central concerns of these studies has been the structural inclination towards a deficit in the balance of payments resulting from the fact that the expansion of production requires increasing amounts of capital goods and intermediate inputs of industrial origin. Over the long term, the decision to import or produce these goods depends on the possibilities of exporting other goods or services on terms considered beneficial. Traditional behaviour, i.e., the export of basic commodities, is faced with two main difficulties: the serious deterioration of the terms of trade, especially in times of crisis, and the slow growth of the demand for such commodities. Moreover, Latin American exports of basic commodities have risen at lower rates than the world demand, largely because of the policy of diversification of the supply (investment in other areas) and the protectionism of the central countries. Thus, a group of countries promoted their economic growth through the substituting of industrial imports; this was a decision regarding supply which was forced on them to a large extent by external conditions. From the mid-1960s on, the previous industrialization process opened the door to a new form of decision as to what to produce, what to import and what to export. The possibility of exporting industrial goods, both to the region itself and to the rest of the world, made it possible *inter alia* for exports to grow at rates similar to or higher than the growth rates of the gross domestic product. The economies in which the relative importance of external trade with respect to the product was declining changed their direction and began to 'open up' to the exterior: The increase of imported industrial goods required by growth was then achieved thanks in part to an external trade of industrial goods; however, some problems still arose. Industrialization does not allow for constant and similar progress to be made in every

branch; if advantage is to be taken of external markets, there must first be an industrial infrastructure and the time needed for installation and the magnitude of the investment required present difficult problems of scale. This in turn explains the attempts at integration and the greater success of those countries which managed to make progress in this regard or which because of their economic and demographic size were able in certain stages to handle the problems of scale by themselves.

Beginning in 1973, two new elements were added to the factors affecting the equilibrium of the balance of payments: the abundance of external financing and the increased value of fuels. External financing, which had traditionally been used by the region, more than doubled in importance relative to the product and made it possible, for a relatively long period (1974-1980), to support a level of imports which could not have been supported by exports alone. The rise in the prices of oil had different effects on different countries, since some were net exporters, others were net importers and a third group had a relatively balanced external trade in fuels. Most of the countries resorted, for different reasons, to external financing, including the net exporters of oil. In the early 1980s, it is difficult to increase the debt any more, as the cost of so doing is high and the service of the debt is beginning to put pressure on the levels of imports. As regards the increased price of fuels, the deficit countries have made great efforts to adjust their economies to the new situation by increasing exports and, in some cases, reducing imports. The surplus countries have adjusted their economies to higher levels of imports relative to the product. Therefore, it does not seem likely that these two elements could again, during the 1980s, play the role they did during the period 1974-1980. On the contrary, they have both created the need to increase exports substantially in order to make it possible to maintain the relative position of imports and to service the debt. This all leads to the conclusion that, unless imports can be restricted, the region must continue to increase its exports rapidly and, for the reasons explained before, such growth must be based on manufactured goods

and must be achieved in the regional and non-traditional markets.

In order better to describe these concepts, we shall now look at some data for the region as a whole. In making the projections, an import product elasticity of somewhat over one has been used, although this is lower than that of the 1970s; in this respect, it should be recalled that because of the lower elasticity of fuel consumption, a global elasticity of more than one is especially meaningful. This position is based on recognition of the fact that, despite the expansion of industry, it will be necessary to invest higher proportions of the product than are being invested now and to have access to capital goods and inputs which most countries cannot easily produce over the medium term if each market is considered separately. Moreover, if a reasonable degree of efficiency is to be achieved, a certain openness to external commercial markets must be maintained.

As mentioned above, net external financing increased significantly as a percentage of the product, rising from levels of around 2% during the 1960s to around 4% in the mid-1970s and 3% towards the end of that decade.

As a result of this trend, the servicing of the debt, which up to 1975 had represented about 25% of exports, rose to nearly 45% towards the end of the 1970s, despite the accelerated growth of exports. The projections show that, even with high export growth rates, it would be impossible to keep net external financing at the levels attained since 1974, particularly if interest rates remain at positive real levels and if the profile of the debt continues to worsen. In this exercise, moderate assumptions regarding these last two factors have been used and net external financing has been fixed at relatively high levels, around 2.7% of the product, and in percentages of exports that are clearly higher than those of the 1960s, although somewhat lower than those of the late 1970s. In this way, the service of the debt could represent, as previously, 25% of exports.

The assumptions adopted for imports and external financing mean that the equilibrium of the balance of payments will depend on the terms of trade and on the growth of the volume of exports. Without considering differences between countries, especially as regards external

trade in fuels, a ratio similar to that in force in 1979 has been assumed. As a point of reference, it should be recalled that the index of the terms of trade in 1981 was 40% higher than in 1979 for the oil-exporting countries, whereas it deteriorated by 20% for the rest of the Latin American countries.

In these circumstances, in order to balance external accounts, the long-term growth of the volume of exports would have to be 8.5% per year. If the terms of trade improved by 10% during the first years of the decade, the requirement for the growth of exports would be reduced by approximately 1%. The recent experience of some Latin American countries, where the deterioration of the terms of trade has made it necessary to force the growth of exports, provides a good example of the importance of this ratio.

Therefore, a relatively dynamic growth of imports accompanied by a bearable external financing and terms of trade which, although unfavourable for most of the countries, are higher than at present, places the burden of the effort on exports.

To find out whether such a high volume of exports can be achieved, we shall now explore the implications of such a goal in terms of content and destination.

Latin American exports were placed on a world trade scenario that is divided into regions: the developed market economies, the centrally planned economies, Latin America, the OPEC countries (except Venezuela and Ecuador) and the rest of developing countries. The foreign trade of each of these regions depended on the internal level of activity. While it is true that long-term trends tend to increase the deficit that has been evident in Latin America's trade in goods, if one takes into account what has happened since 1976, one may see that the region has reacted to external problems by increasing its exports at record rates. What is significant, in any event, is the disparity in the growth of the markets for the different goods. It is estimated that, with world trade growing at average annual rates of between 7 and 8%, the trade in manufactured goods grew at between 8.3 and 9.7%, while the trade of commodities only grew between 4.2 and 4.8% and fuels grew between 3.1 and 3.7%.

The region already has a significant share of the international commodity market and in the past has had to face heavy competition from other developing regions, as well as the protectionism of the centres. The low growth rate of the commodity market, together with the difficulty of increasing Latin America's share in it, would make it impossible to base a growth rate of nearly 8.5% on commodities; moreover, a great effort will be required to maintain or increase, even marginally, the region's share in the international markets. The option that is considered most acceptable would be to reverse, or at least stop, the downward trend in the share of commodities (from 17% in 1955 to 12% in 1980) and raise it slightly in order to reach 12.5% in 1990. A similar assumption has been made with respect to fuels, which would remain at 12%, i.e., with an average annual growth rate of 4.5%.

Therefore, the growth of exports required to balance the balance of payments should be based primarily on manufactured goods. These goods, which represented 1.3% of world trade in 1980, will represent 2.4% in 1990; in order to appreciate the relative importance of these percentages, it must be borne in mind that in 1990 the world trade in manufactured goods will be five times greater than the trade of commodities. This means that Latin American exports of manufactures must increase at average annual rates in the order of 17%.

This new composition of exports would require a significant restructuring of the destination of the goods. It is not realistic to think that the developed countries are going to change their behaviour radically and allow the developing countries easily to increase their share in those markets; moreover, the imports required by Latin America create a good market for regional projects, especially pertaining to manufactured goods. Indeed, by 1990, nearly two-thirds of imports will be manufactures. If the region were to aim by 1990 to supply 30% of its imports with goods produced in the region, as compared with the present 17%, the 8.5% growth of exports would break down into average annual growth rates of 5.7% for extraregional exports and 13.2% for intra-regional exports. In this way, the composition of intra-regional trade would change substantially and manufac-

tured goods would account for 64% in 1990. At the end of the 1970s, the figure was 30%.

The data and projections just described are based on the assumption that there will be significant changes in the magnitude, composition, origin and destination of foreign trade. They simultaneously serve two purposes: they make a high economic growth rate viable and strengthen such growth, and they introduce greater symmetry into external economic relations. Such changes can alter the region's position as regards world production and trade, improving it both quantitatively and qualitatively. Thus, the structural modification of external economic relations appears to be closely linked to changes in the internal productive structure. The subject will be discussed on the following pages.

3. *The productive structure of the Latin American countries*

The discussion on foreign trade has been guided by the need to allow for economic growth with respect to the supply of imported industrial goods and to place the problem of financing within manageable boundaries. The magnitude of exports is conditioned here by the need to strike a balance between the balance of payments and its composition and the dynamism and elasticities of demand. The structure of external trade that is implicit in these projections must be consistent with the internal productive structure, which means that the Latin American countries must meet a basic requirement: that of having an industrial sector capable of supporting the new composition of exports, since, in quantitative terms, industrial exports should grow at much higher rates than the product.

This need to industrialize appears even greater when one bears in mind the magnitude and nature of the domestic demand that is implicit in a more equitable and accelerated growth. Investment requirement would generate a heavy demand for industrial goods, particularly from the metals and metal products sector, and the rapid growth of private consumption would also increase the demand for such goods. While it is true that measures regarding distribution can modify this trend somewhat,

there is no question that the demand for industrial goods would grow more rapidly than the income.

Therefore, everything seems to indicate that the industrial sector should grow at higher rates than the product. In the projections made, it is estimated that the manufacturing sector would have to grow at an annual rate of somewhat over 8%, which would mean that the sector's share in the product would be around 30% in 1990.

Industrial growth that met the requirements described here should be different from that which has been occurring in Latin America. A look at the growth of the domestic demand will show that the expansion of investment and of private consumption would directly and especially create pressure on the metals and metal products sector, while the projections for the external trade indicate that those export products with respect to which the greatest growth should be sought are machinery and transport materials, which should grow at annual rates of 21% between 1978 and 1990, and whose share of exports would rise from 4.1% to 16.3%.¹⁰

This growth of the metal and metal products sector would create a substantial additional demand for basic intermediate inputs. It would be essential to develop, among others, the branches of ferrous and non-ferrous metals, petrochemicals and heavy chemicals particularly considering that the projections for imports do not envisage an accelerated growth for this type of goods. In addition, it would be necessary to correct the problems of vertical integration in the industrial sector, through a greater integration of the intermediate and metal and metal products branches.

It is easy to understand that the growth of regional trade and development of branches which generally pose problems of scale will make it necessary to apply selective criteria. Likewise, access to the technology of the centres is restricted and burdensome, so that in choosing an alternative it will be necessary to

¹⁰This subject is discussed in greater detail in "Estrategia de desarrollo sectorial para los años ochenta: industria y agricultura", *Estudios e Informes de la CEPAL* No. 9, Santiago, Chile, 1981.

examine the prospects on both the international and the Latin American scenes.

In this connection, many questions arise that must be explored. For example, as a result of the energy crisis and its repercussions, some developed countries seem to have abandoned to some extent certain energy-consuming sectors, particularly certain parts of the steel and heavy chemicals industry. At the same time, the OPEC countries seem to be developing a strong chemicals and petrochemicals industry, while an examination of the Latin American industrialization process shows that between 1974 and 1980 the bulk of industrial growth was based on the development of intermediate branches. In this respect, it will be necessary to determine what the current Latin American deficits are, what openings might be created as the developed countries abandon certain intermediate branches and what would be the repercussions of the entry into production of OPEC investments.

A close study should be made of the development of the transport materials industry. The developed countries are engaged in a technological battle in this branch and the new plants in Europe appear to be achieving cost levels comparable to those of the Japanese. It would therefore be essential to determine whether the existing plants in Latin America are adjusting adequately to these innovations.

In brief, a study of a set of selected industrial branches would be essential in order to draw up guidelines for the economic policy that is implicit in the industrialization goals

discussed here. These would indicate the possible combinations of investment, technological innovation and margins of protection that have to be established in order to make the industrialization process desired a reality. For example, CEPAL is currently conducting a study on the production and external trade of capital goods, the preliminary findings of which show the potential for regional development that exists in this field.¹¹

Finally, industrial development should also be considered from a broader sectoral perspective. Agricultural growth would have quite a different significance for the countries of the region if they increased the use of regional machinery and raised the value of their commodities through agro-industry. The same may be said with regard to services. It is well known that services are expanding considerably in the developed countries and that their nature depends to a large extent on their association with the goods-producing sectors and especially with the industrial sector. As long as part of the growth of services is associated with an industrialization process, they will represent actual increases in productivity and make a real contribution to the well-being of the population. This was the case of the increase in percentages of the population employed in services under the accelerated growth option described above, which is different from the case of the increases that took place in some Latin American countries, where they represented a mechanism for redistributing income.

IV

The current situation and structural change

It might seem out of place, in 1982 when many Latin American economies are in the midst of a crisis, to take a medium and long-term approach to the transformation of production, the new forms of insertion into the international economy and the issue of distribution.

Nevertheless, with the passing of time, the evidence has confirmed the fact that the crisis of the central countries is structural in nature

and the data available have shown the profound effect which this crisis has had on Latin American societies. As is usual in this type of

¹¹Some preliminary findings are discussed in the article by Jorge Beckel and Salvador Lluch entitled "Capital goods. Size of markets, sectoral structure and demand prospects in Latin America", in *CEPAL Review* No. 17, August 1982.

deep-seated external crisis, any change that takes place in respect of the disequilibria in the balance of payments will in the long run affect the parameters under which the economy as a whole operates.

A comparison between the direction which changes are actually taking and the direction they should be taking in order to bring about a more equitable and dynamic society in which decisions can be taken independently, will show similarities and disparities.

There are elements in the changes produced in the external sector that could be helpful in establishing a productive structure that would meet the requirements for an external trade similar to that proposed above. In effect, devaluations, increases in tariffs and other measures designed to restore balance or to attain a surplus on the trade balance tend to favour production for domestic and regional markets. Although it is true that, theoretically, exports to the central countries should also be encouraged, it is well known that this potential growth is held back by the protectionism of those countries, especially as regards manufactured goods, and by the new drops in the prices of commodities which could go hand in hand with an increase in the supply.

For this reason, the measures adopted have a more direct effect on the domestic market because they provide greater protection to those who produce for it; at the same time, one of the areas of foreign trade in which there is a certain degree of autonomy is that pertaining to a possible policy of regional co-operation as regards manufactured goods and the governments are now taking certain measures to promote such a policy. Nevertheless, three phenomena affecting demand and productive capacity conspire against these advances: the depression of the domestic markets brought about in many countries by measures designed to restrict expenditure, the deterioration—not easily reversed—of productive capacity in many branches as a result of the policies of the 1970s, and the magnitude of the financial problems of many enterprises, which are further aggravated by devaluations.

There is no question that in most of the countries, dynamism has been sacrificed to external balance, although this has been done to

different degrees in different cases; indeed, there are substantial differences as regards the will and capacity to reduce and restructure demand. Some countries have tried to replace domestic demand by external demand in order to avoid a decline in the product and at the same time to restore external balance. Other countries have tried to restructure domestic demand in order to reduce the demand for imports. Insofar as possible, reserves and import substitution have also been used.

Naturally, the governments that had developed more active economic policy schemes during the 1970s are now able more successfully to face the need for restructuring than those which based their policy fundamentally on macroeconomic tools; likewise, those which had developed their manufacturing sector to a greater extent now have a greater margin of flexibility as regards supply.

Nevertheless, despite the efforts that have been made, the decline of external demand from the central countries, the internal financial disequilibria and the strong dependency of certain vital sectors on external supply have limited the effect of the measures designed to check the fall of global demand. To this is added the fact that, unfortunately, measures aimed at restructuring demand have not always been applied in connection with a supply policy and on occasions they only seem to be part of a chain reaction to unstable external conditions, with serious and not easily remedied consequences for the productive sector. Thus, in general, the recession has had a very negative effect on economic dynamism; this has been particularly true in the case of employment and often also in the case of real wages. Government policies have attempted, with different emphases, to reduce these undesirable effects of the recession on production. However, it appears that in general the cost of the recession has not been distributed with due regard to criteria of equity. In the cases where high-income groups have continued to receive large shares of the income, it does not seem to have been channelled towards investments capable of sustaining a new structure of production; this behaviour is reinforced by the prevailing uncertainty and instability.

Moreover, there are indications that a cer-

tain amount of that income has been channelled towards speculative investment, which in general aggravates the external crisis, the productive depression, and the productive disequilibria. Thus, there is every indication that the current situation has accentuated the existing inequities. On the other hand, since the political process has become more fraught with conflict, changes are taking place which in some cases favour the return of democratic forms.

In summary, the policies are simultaneously producing signs of adjustment, redeployment and transformation. The appraisals of the 1970s, and the prospective exercises discussed clearly show the need for transformation.

If the orientation that is implicit in the new parameters of the external sector is considered by the authorities to be a phenomenon that is not conjunctural in nature, if the domestic markets recover and if regional co-operation efforts succeed, the current situation might point to a structural change in the orientation of invest-

ment and, consequently, in the productive structure of the countries. However, it is still too early to determine which of these trends will predominate in the current crisis. Because of the magnitude of the problems, so evident everywhere, and the many opinions and pressures favouring the adoption of an approach ranging between adjustment and redeployment we must conclude by stressing the fact that the crisis also offers possibilities. Possibilities, because it has become evident that despite the progress made to date, the structural problems remain; they are still critical and must be faced. Possibilities, because many restructuring measures that could not be applied in more normal economic situations are now politically viable. Possibilities, finally, because circumstances are making it clear that, in the face of difficulties of this magnitude, it is essential to establish political systems that will allow for the participation of the majority social groups which will, in the last analysis, bear the brunt of any structural solution.

Growing labour absorption with persistent underemployment

*Norberto E. García**

CEPAL has always devoted special attention to the problems of employment, to the extent that it considers the phenomenon of the productive absorption of labour to be the most obvious manifestation of economic development. From that point of view, this article is particularly interesting for its analysis of what has occurred in Latin America with respect to this phenomenon between 1950 and 1980, and to that end the author expresses his intention from the start of explaining the apparent paradox implied in the coexistence of a considerable growth in the absorption capacity of the non-agricultural modern strata along with a persistence or slow decline in underemployment.

The basis of his argument is to demonstrate that the series of phenomena whose interaction explains the results of absorption in modern segments and the evolution of underemployment has a different impact according to groups of countries and leads to very differentiated results: countries which show a rapid absorption in modern segments along with a slow but significant reduction in underemployment, and countries which show a slow absorption in these segments along with persistently high rates of underemployment. In particular, the substantial and increasing difference in resource requirements per employed person between modern activities and traditional agricultural activities, together with the rapid growth of the non-agricultural economically active population (EAP), the small initial importance of the modern strata and the slow rate of job retention in modern agricultural activities largely explain why even those countries which show a great effort at accumulation and economic growth, although they manage to reduce underutilization, are unable to absorb the entire transfer of labour from the agricultural sector to the modern segments. As a result, the author concludes that it is a problem not only of the size of capital formation—especially in the countries which show slower rates of absorption—but also of the limited effects of this capital formation and the pressures of the urban labour supply. Thus, what is relevant is not only the size but also the composition of the use of resources and their greater or lesser homogenizing effects.

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Introduction*

Since the end of the war, the majority of Latin American countries have been undergoing profound changes in their occupational situation, which correspond essentially to a dual phenomenon: the process of transfer of labour to more highly productive activities and the pressure of the growth—natural and migratory—of the urban labour force, with a decline in the relative weight of the agricultural sector in total employment.

For explanatory purposes—and by oversimplifying the analysis—it is possible to construct two opposite hypotheses with respect to the results of the abovementioned processes. The first of these would hold that in the decades after the war there was a significant growth in employment in Latin America, essentially non-agricultural, in acceptably productive strata or activities. The second hypothesis would emphasize the persistence of serious underemployment problems in the context of the growing urbanization of this underemployment.

Two opinions with respect to the process of capital formation might also be associated with these two approaches. The first would emphasize that Latin America's attempts to promote investment and economic growth during the past decades have been more than considerable, reaching at least the level of the historical experience of many of today's advanced countries in their respective periods of change in occupational structure. The second opinion would hold that the effort to promote investment has been insufficient to absorb, in the modern non-agricultural strata, the growth and transfer of the economically active population which has occurred in the past decades.

It is not the purpose of this study to offer a comprehensive interpretation of these phenomena. Its objective is less ambitious: to contribute elements to the discussion, in the sense of suggesting that what has occurred in Latin America in the past three decades tends to be a synthesis of the above two hypotheses

*I would like to thank V.E. Tokman, Director of PREALC, and A. Monza and H. Szretter, staff members of the same Programme, for their comments and suggestions.

and their respective sub-hypotheses. Thus, besides verifying a part of the evidence and/or the empirical estimates available, the study points out some of the factors which allow the two apparently opposite hypotheses to be reconciled.

These factors correspond, on the one hand, to phenomena present in the development of most of the countries of the region in the postwar period; and, on the other, to the different intensity with which they act in the various countries of the region. As a result, the reconciliation or synthesis of the opposing hypotheses is proposed at a dual level: first, that of the presence of phenomena which in themselves explain why in many countries of the region there is simultaneously a high growth of employment in modern non-agricultural strata and a persistence—in some countries declining—of high levels of underemployment, in the context of a great effort to invest. The second level is that of the increasingly decisive importance of differentiated behaviours among the various countries, the identification of which may help to explain the coexistence in the region of trends which are nearer to one or the other hypothesis.

Section I of this study analyses the absorption capacity of modern non-agricultural activities during the period 1950-1980, in the light of the available evidence, and points out the prob-

lems arising from it. Section II summarizes the available estimates on the evolution of total underutilization of labour and the coverage of underemployment—and its composition—and it brings out the most relevant features for the purpose of the study. The following section develops a working hypothesis with respect to resource requirements in general—not only investment—imposed by a process of long-term transfer of the labour force; it relates its intensity to the initial degree of, and trends in the period with respect to, structural heterogeneity and points out the various investment efforts being made in the region in the generation and use of resources. Section IV discusses three phenomena in addition to those already mentioned, which are useful for an understanding of why the interpretation of what has occurred in Latin America is closer to a synthesis of the abovementioned hypotheses; namely: (i) the rate of growth of the non-agricultural economically active population; (ii) the initial impact of the modern non-agricultural strata on total employment; and (iii) the evolution of employment in modern agricultural activities. Finally, the last section states the principal conclusions, and re-emphasizes the reconciliation of the above hypotheses on the dual level already mentioned: principal elements or factors and diversity of behaviour by groups of countries.

I

Absorption capacity of modern non-agricultural activities

It is useful as a first step to verify the available evidence. Table 1 summarizes the estimates of employment growth in modern non-agricultural activities¹—which PREALC calls formal

urban activities—for 14 countries which represent 95% of the economically active population (EAP) of Latin America in 1980, so that its conclusions are representative of the region as a whole. This table shows three groups of countries:² *Group A*, including those which show a reduction in the rate of underutilization of their urban labour force in 1950-1980, particularly

¹ The definition and methodologies of estimation are similar to those used in a previous study—see note 2 below. In regard to the evolution of modern non-agricultural employment, the *proxy* used is the employment of *salaried* non-agricultural workers, excluding domestic service and including professionals, technicians, executives and similar classifications within the category of own-account workers.

² The same grouping criterion is used here as by PREALC in *Dinámica del Subempleo en América Latina*, Santiago, Chile, CEPAL, 1981, chapter II and Methodological Annex.

due to a decline in underemployment;³ *Group B*, including those countries which do not show a significant decline in this rate; and *Group C*, including three countries in special situations, because of the characteristics of their population and productive structures at the beginning of the period of study and because of the effect of the reorientation of the economic policy model (in the last five years of the period) on the formal-informal composition of urban employment.

The growth rates in table 1 may be considered one of the indicators of labour absorption in *modern* non-agricultural strata, during a period in which most of the countries of the region were going through the process of transfer of EAP from agricultural activities to non-agricultural activities with relatively higher productivity.

As a result, any evaluation assumes an implicit reference to the historical experiences of other countries, during the period in which they transferred the bulk of their labour force from traditional rural labour to more highly productive activities; otherwise, it is difficult to qualify the efforts as either strong or weak. Taking this into account, let us now see what table 1 suggests.

1. For the region as a whole, the growth rate of modern non-agricultural employment was 3.7% on average annually. Nevertheless, a study of table 2 shows that by 1950 the relative weight of the modern non-agricultural sector in the national EAP averaged 26.3% for the group of countries analysed, excluding Argentina, while in this latter country, by 1950, 57% of the EAP was located in modern non-agricultural activities.

If the purpose is to analyse, as mentioned, the long-term transition process of the occupational structure, the problem here is that in the case of Argentina most of this process has al-

³The third chapter describes the categories mentioned. To facilitate their interpretation at this stage, it is useful to recall that the underemployment rate is an indicator of the coverage of this phenomenon, whereas the total underutilization rate is an indicator of coverage and intensity which includes open unemployment and equivalent underemployment in terms of totally non-utilized workers. For the respective definitions, see PREALC, *Dinámica del subempleo...*, *op. cit.*

ready occurred in the decades *previous* to 1950. Thus, in this perspective, it is helpful to exclude Argentina and analyse what occurred in the remaining countries.⁴ Excluding Argentina, the growth rate of modern non-agricultural employment for the region was 4.2% over 30 years. In contrast with the record of other historical experiences, this performance cannot be considered poor, but rather significant.

Table 1

LATIN AMERICA: GROWTH OF
EMPLOYMENT IN FORMAL NON-
AGRICULTURAL ACTIVITIES,
1950-1980

(Annual cumulative average rates, in percentages)

	1950-1980	1950-1970
<i>Group A</i>		
Mexico	4.6	4.5
Panama	4.2	4.7
Costa Rica	5.2	5.1
Venezuela	5.1	4.6
Brazil	4.4	4.4
Colombia	4.3	4.5
Guatemala	4.5	4.3
<i>Group B</i>		
Peru	4.2	4.0
Ecuador	2.9	1.4
Bolivia	3.8	4.0
El Salvador	4.2	4.0
<i>Group C</i>		
Argentina	1.8	2.1
Chile	2.6	2.8
Uruguay	0.8	0.8
<i>Latin America</i> (14 countries)	3.7	3.7
<i>Latin America</i> (excluding Argentina)	4.2	4.1

Source: Developed from preliminary PREALC estimates, based on population censuses, economic censuses, household and establishments surveys, compatibilized and adjusted.

⁴Similar reasoning may be used for Uruguay, which by 1950 showed 63.4% of its national EAP in modern urban activities. For reasons of relative weight, the exclusion of Uruguay does not change the regional averages.

Table 2
LATIN AMERICA: RELATIVE WEIGHT OF THE FORMAL NON-AGRICULTURAL EAP
IN 1950 AND 1980
(Percentages)

	Share of the formal EAP in total EAP		Share of the formal EAP in non-agricultural EAP	
	1950	1980	1950	1980
<i>Group A</i>				
Mexico	21.6	39.5	62.5	64.3
Panama	26.8	41.2	74.7	68.4
Costa Rica	29.7	52.9	70.6	81.0
Venezuela	34.7	62.6	67.9	79.2
Brazil	28.5	45.2	72.5	72.8
Colombia	23.9	42.6	61.0	65.7
Guatemala	15.2	26.7	48.5	60.0
<i>Group B</i>				
Peru	19.1	35.0	53.0	59.6
Ecuador	21.5	22.7	64.8	47.3
Bolivia	9.1	19.9	37.8	43.6
El Salvador	18.5	28.6	57.3	60.2
<i>Group C</i>				
Argentina	56.8	65.0	78.9	77.0
Chile	40.8	54.1	64.8	72.9
Uruguay	63.4	63.3	81.4	76.9
<i>Latin America</i> (14 countries)	30.5	44.9	69.3	69.8
<i>Latin America</i> (excluding Argentina)	26.3	42.6	66.4	68.7

Source: Developed from preliminary PREALC estimates, based on population censuses, economic censuses, household and establishments surveys, compatibilized and adjusted.

2. Furthermore, table 1 shows the diversity of situations present in the region in the period 1950-1980. Countries in Group A show growth rates of modern non-agricultural employment in general *higher* than the average regional rate of 4.2% mentioned: all the members are located in the range of 4.2% to 5.2% on average annually. Group B shows average rates in a range of 2.9% to 4.2% annually, and Group C 0.8 to 2.6% annually. It should be recalled that the three countries of this latter group are those which at the beginning of the period already showed considerable advances in the process of transfer of labour to modern non-

agricultural activities. As a result, two conclusions in addition to those mentioned in the previous point may be drawn: (i) the long-term average regional growth in modern non-agricultural employment conceals fairly diverse behaviours; (ii) in particular, if it is agreed that the regional average of 4.2% annual growth indicates an outstanding performance, this is even more true for the historic record of *Group A*, whose members show higher rates than this average. This latter point is important in view of the fact that Group A represented around 70% of the EAP of the region in the period analysed.

3. In the region as a whole, there do not appear to be very significant changes between the record from 1950 to 1970 and what occurred in the last decade. Changes did occur at the country level, but none were so great as to imply that the previous conclusions are based on what occurred in the last decade. In general, a comparison of columns 1A and 2A of table 1 suggests that the countries which had been doing well—on the level analysed—in the first two decades continued to show a favourable record in the last decade.⁵

4. The three conclusions above suggest a relatively high dynamism in the long-term growth of modern non-agricultural employment in most of the countries of the region. Nevertheless, it is useful to situate their incidence correctly in order to be able to evaluate their impact. Table 2 provides information on

the relative weight of modern non-agricultural EAP in the total EAP for 1950. This brings out a fact which is not usually taken into account when only the employment growth rates are analysed in modern non-agricultural sectors, namely that by 1950 the proportion of modern non-agricultural employment in total employment was fairly low: 26.3% on average for the region, excluding Argentina. As a result, even though the growth rates may be significant, they refer to and have an impact on an initially *much lower* base than total non-agricultural employment. (Thus, while the modern non-agricultural EAP represented 30.5% of the regional EAP by 1950, the total non-agricultural EAP amounted to 44% of the regional EAP⁶) We will see the implications of this fact in section IV.

II

Evolution of total underutilization in 1950-1980

The underutilization of the labour force, in the Latin American context, includes basically the incidence of open unemployment and the expansion and intensification of invisible underemployment. The open unemployment rate reflects both the extension (coverage) of the phenomenon and its intensity, since the openly unemployed, with a productive contribution of zero, are fully underutilized. The underemployment rate is an indicator of the extension of the phenomenon which does not reflect the degree of intensity of the underutilization affecting the underemployed, since the latter are employed at very low levels of activity but their productive contribution is not zero. The concept which takes into account the extension and the intensity of underemployment expresses the number of underemployed in equiva-

lents of fully underutilized persons and is thus known as equivalent unemployment.^{7, 8} Thus, the total underutilization rate is a result of adding the open unemployment rate to the equivalent unemployment rate.

The idea of utilized underemployment corresponds principally to employed persons in *activities with very low productivity*, which are unorganized, weakly integrated into the modern productive apparatus, and which have very little access to resources, little or no accumulation and incipient or backward technologies. This applies both in agricultural areas—where these activities are usually called

⁵Two of the most significant changes occurred in Venezuela and Ecuador, where there was a sharp acceleration in the growth of modern non-agricultural employment in the last decade. The favourable impact on the modern urban centre of the oil boom in the last decade is undoubtedly one of the explanatory factors of this acceleration period.

⁶Excluding Argentina, the regional figures are 26.3% and 40% respectively.

⁷For a summary of the operational definitions of these categories and the respective method of estimation, see PREALC, *Dinámica del subempleo...*, *op. cit.*, Methodological Annex.

⁸The expression of the number of underemployed in terms of the corresponding number of fully underutilized persons implies using a weighting system which reflects the average rate of underutilization of the underemployed persons.

traditional— and in non-agricultural areas, where there predominates what PREALC has been calling informal urban activities. As a result, there is a clear relationship between underemployment and the structural heterogeneity of the productive apparatus.⁹

The results of a recent study have made available the indicators of the phenomena initially mentioned for the period 1950-1980. This chapter presents some of its principal results and respective conclusions.¹⁰ Table 3 illustrates the coverage and composition (agricultural and non-agricultural) of underemployment in 1950-1980, in the same 14 countries analysed in the previous section. Table 4 provides information on the rates of open unemployment, equivalent unemployment and total underutilization for the same period and group of countries. (It is interesting to note that the results which may be inferred from both tables justify the grouping of experiences mentioned in the previous section. *Group A* was defined as the series of experiences which had shown, in the period 1950-1980, a significant reduction in underemployment and total underutilization; *Group B* are those which did not experience this trend; and *Group C* reflected the situation of experiences whose structural data at the start and conjunctural situation at the end of the period suggested they should be analysed separately.) The principal conclusions which are interesting to note for the purpose of this study are the following:

1. For the region as a whole, the principal result is the slow rate at which the rate of total underutilization is reduced, and this is explained essentially by the persistence —although declining— of high levels of underemployment (coverage and intensity). Between 1950 and 1980, the total underutilization rate fell from 22.9 to 19.9%.

2. The aggregate behaviour of the region conceals situations and performances which

are very differentiated. Group A shows a significant reduction in total underutilization, mainly explained by the clear decline in equivalent unemployment, although underemployment —coverage and rate— continued to be very high. Group B did not show any significant drop, and it has the highest rates of equivalent unemployment in the region. In both groups, the coverage and rate of underemployment are the principal determining factors of the rates of underutilization recorded. In Group C, the coverage and intensity of underemployment were much lower by 1950 than in the rest of Latin America, which explains why it shows a much lower underutilization. Open unemployment is, in this case, an important part of the explanation of the levels of underutilization shown. (In this group, the drastic reorientation of the economic policy models used in the last five years of the period alters the long-term trends, either on the level of open unemployment or on that of equivalent unemployment —or both— and it is an important part of the explanation of the results achieved at the end of the last decade.)

3. The above confirms that, for Latin America as a whole, open unemployment is not the principal form of underutilization. Nor does there seem to be any explosive and widespread trend with respect to the evolution of the open unemployment rate; if anything may be said in this respect, it is that in general, with occasional exceptions, there were no large fluctuations in the trends.

4. Table 3 points out an important aspect: the trend towards growing urbanization of underemployment. By 1950, 70% of those affected by underemployment were in agricultural activities; in 1980, this figure had been reduced to 53%. This reflects the rapid growth in the significance of what PREALC calls informal urban activities in the total EAP. It is the latter which explains why the coverage of non-agricultural underemployment —essentially urban— rose from 13.6% of the total EAP of Latin America in 1950 to 19.4% in 1980, while the coverage of agricultural unemployment fell from 32.5% of the total regional EAP in 1950 to 22.6% in 1980. As a result, the slow decline in underemployment is occurring in a context of a growing urbanization of this under-

⁹In the sense used by Aníbal Pinto. See this author, "Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano", in *El Trimestre Económico*, Mexico City, Fondo de Cultura Económica, January-March 1965, and also, in the same review, "Naturaleza e implicaciones de la heterogeneidad estructural de la América Latina", January-March 1970.

¹⁰PREALC, *Dinámica del subempleo...*, op. cit.

Table 3

LATIN AMERICA: COVERAGE AND COMPOSITION OF UNDEREMPLOYMENT, 1950-1980

(Percentages of EAP)

		Coverage of underemployment		
		1950	1970	1980
<i>Group A</i>				
Mexico:	Total	56.9	43.1	40.4
	(Agricultural)	(44.0)	(24.9)	(18.4)
	(Non-agricultural)	(12.9)	(18.2)	(22.0)
Panama:	Total	58.8	47.5	45.5
	(Agricultural)	(47.0)	(31.7)	(24.6)
	(Non-agricultural)	(11.8)	(15.8)	(20.9)
Costa Rica:	Total	32.7	31.5	27.2
	(Agricultural)	(20.4)	(18.6)	(14.8)
	(Non-agricultural)	(12.3)	(12.9)	(12.4)
Venezuela:	Total	38.9	42.3	31.5
	(Agricultural)	(22.5)	(19.9)	(15.1)
	(Non-agricultural)	(16.4)	(22.4)	(16.4)
Brazil:	Total	48.3	48.3	44.5
	(Agricultural)	(37.6)	(33.4)	(27.6)
	(Non-agricultural)	(10.7)	(14.9)	(16.9)
Colombia:	Total	48.3	40.0	41.0
	(Agricultural)	(33.0)	(22.3)	(18.7)
	(Non-agricultural)	(15.3)	(17.7)	(22.3)
Guatemala:	Total	61.0	54.3	50.9
	(Agricultural)	(44.8)	(37.0)	(33.1)
	(Non-agricultural)	(16.2)	(17.3)	(17.8)
<i>Group B</i>				
Ecuador:	Total	50.7	64.9	63.3
	(Agricultural)	(39.0)	(41.2)	(37.9)
	(Non-agricultural)	(11.7)	(23.7)	(25.4)
Peru:	Total	56.3	58.4	55.8
	(Agricultural)	(39.4)	(37.7)	(32.0)
	(Non-agricultural)	(16.9)	(20.7)	(23.8)
Bolivia:	Total	68.7	73.1	74.1
	(Agricultural)	(53.7)	(53.5)	(50.9)
	(Non-agricultural)	(15.0)	(19.6)	(23.2)
El Salvador:	Total	48.7	44.6	49.0
	(Agricultural)	(35.0)	(28.0)	(30.1)
	(Non-agricultural)	(13.7)	(16.6)	(18.9)
<i>Group C</i>				
Argentina:	Total	22.8	22.3	25.7
	(Agricultural)	(7.6)	(6.7)	(6.3)
	(Non-agricultural)	(15.2)	(15.6)	(19.4)
Chile:	Total	31.0	26.0	28.0
	(Agricultural)	(8.9)	(9.3)	(8.8)
	(Non-agricultural)	(22.1)	(16.7)	(20.1)
Uruguay:	Total	19.3	23.7	27.0
	(Agricultural)	(4.8)	(6.9)	(8.0)
	(Non-agricultural)	(14.5)	(16.8)	(19.0)
<i>Latin America</i> (14 countries)	Total	46.1	43.8	42.0
	(Agricultural)	(32.5)	(26.9)	(22.6)
	(Non-agricultural)	(13.6)	(16.9)	(19.4)

Source: PREALC, *Dinámica del subempleo en América Latina*, Santiago, Chile, CEPAL, 1981.

Table 4
LATIN AMERICA: OPEN UNEMPLOYMENT, EQUIVALENT UNEMPLOYMENT
AND TOTAL UNDERUTILIZATION, 1950-1980

(Percentage of EAP)

	Equivalent unemployment rate			Open unemployment rate			Total rate of underutilization		
	1950	1970	1980	1950	1970	1980	1950	1970	1980
<i>Group A</i>							24.7	23.0	19.7
Mexico	22.4	15.3	12.7	1.3	3.8	4.3	23.7	19.1	17.0
Panama	27.8	18.2	13.0	9.3	7.7	7.3	37.1	25.9	25.8
Costa Rica	16.9	12.6	9.3	4.1	3.5	3.9	21.0	16.1	13.2
Venezuela	11.0	10.3	8.0	6.3	6.2	4.2	17.3	16.5	12.2
Brazil	20.2	21.4	17.0	3.4	2.5	2.9	23.6	23.9	19.9
Colombia	27.3	23.1	22.8	6.2	6.0	5.2	33.5	30.3	28.0
Guatemala	26.2	24.2	22.2	0.4	1.4	1.4	26.6	25.6	23.6
<i>Group B</i>							35.9	37.7	36.3
Peru	34.3	31.7	29.6	3.8	5.6	6.7	38.1	37.3	36.3
Ecuador	28.0	34.1	31.1	4.0	3.2	3.0	32.0	37.3	34.1
Bolivia	37.2	39.3	38.5	0.8	4.2	3.0	38.0	43.5	41.5
El Salvador	24.5	20.4	22.4	5.1	10.2	11.2	29.6	30.6	33.6
<i>Group C</i>							8.5	7.7	8.4
Argentina	2.2	2.5	2.2	2.8	2.4	1.8	5.0	4.9	4.0
Chile	12.6	9.2	9.7	5.2	5.7	10.0	17.8	14.9	19.7
Uruguay	5.3	4.2	6.6	6.0	6.7	6.0	11.3	10.9	12.6
<i>Latin America</i> (14 countries)	19.5	18.5	16.0	3.4	3.8	3.9	22.9	22.3	19.9

Source: PREALC: *Dinámica del subempleo...*, op. cit.

employment, which introduces qualitative differences and social implications which transcend what is reflected by the abovementioned quantitative indicators.

5. Another relevant aspect which may also be seen from table 3 is that the reduction in agricultural underemployment has been much more accentuated in Group A than in the rest of the region. This is important because the trend towards the urbanization of underemployment, which is present in the three groups, acquires a different meaning according to whether it is accompanied by very significant or not very significant reductions in the proportion of agricultural underemployment. We will return to this point in section IV.

6. In Group A two very well-defined patterns of reduction in underemployment were recorded. The first was characterized by a very

significant drop in agricultural underemployment accompanied by a partial transfer of the latter to urban areas; such are the experiences of Mexico, Panama, Brazil and Colombia. The second is characterized by a decline in agricultural underemployment, without an increase in the relative weight of non-agricultural underemployment, such as in Costa Rica and Venezuela.^{11, 12}

¹¹ The Experience of Guatemala shows a pronounced decline in agricultural underemployment accompanied by a small increase in the relative weight of non-agricultural underemployment.

¹² It should be pointed out that Venezuela initially shows a considerable transfer of agricultural underemployment to urban areas, as can be seen by observing the data for 1970 in table 3. Subsequently, at the beginning of the 1970s, there was accelerated reabsorption of non-agricultural underemployment, as a result of the rapid expansion of modern urban activities stimulated by the oil boom.

7. A fact which should be pointed out is that the greater success of Group A in reducing the coverage and rate of underemployment is not explainable by a slower growth in its labour force. All the experiences of Group A—except Guatemala—show equal or higher growth rates in the total EAP and the urban EAP than those recorded by Groups B and C. In particular, the two experiences which show the greatest reductions in underemployment and

total underutilization—Costa Rica and Venezuela—are also those which show the highest rates of total EAP growth and urban EAP growth in Latin America. (This does not mean that the behaviour of the labour supply does not have an influence on the evolution of underutilization, but that it is not an explanatory factor in the differences in performance between groups with respect to the reabsorption of underemployment.)

III

Differences in productivity and resource requirements

The higher the difference in the total resources necessary to generate jobs in modern activities *vis-à-vis* traditional activities, and the higher the proportion of the employed EAP in the latter, the greater the pressure on the resources required by the transfer of the bulk of the traditional EAP to more productive activities. The gradual incorporation of new population contingents into more productive occupations helps to raise productive potential and thus makes it theoretically—but not necessarily—possible to reproduce additional resources. This latter is undoubtedly a way of dealing with the greater pressure on resources required by the long-term process of transferring labour. But it is useful to keep one fact in mind: the expenditure of resources necessary to allow for the absorption of a new contingent of labour in modern activities—or at least a large proportion of the latter—must necessarily be implemented *before* the possible reproduction of new resources coming from the greater productivity of those recently transferred can take place. As a result, the financing of this initial expenditure, period to period, depends on the amount of surplus per employed person accumulated previously in the modern sector, or rather, on the part of this surplus which is not devoted to other uses. (It should be recalled that essentially we are dealing with the surplus generated by those who are already employed in the modern sector.) In a dynamic perspective, the process described has a problem: the

greater the resource requirement per worker to be transferred, in relation to the available portion of the surplus of the modern sector, the greater the historical period required to transfer a given proportion of the EAP. (Incidentally, note that another factor affecting the length of time is the destination or use of the surplus: the greater its non-productive use, the lower the proportion of the surplus generated, period to period, which may be used to cover the resource requirements of the transfer process.)

As a result, the expenditure of resources required to implement the transfer continues to be great, even in a dynamic perspective which accepts the greater productivity of the use of resources in modern sectors, because it is one of the factors which influence the *amount of time* necessary to complete the transfer. In this perspective, it is not the total amount of resources required to create a job in modern activities that matters, but rather the *difference* between the latter and the amount of resources required to create a job in traditional activities.

In the context of a process of long-term transfer of labour from traditional agricultural activities to modern non-agricultural activities, the notion of resources required for the transfer¹³ transcends the well-known concept of dif-

¹³ The difference between the resource requirements for generating jobs in modern activities for that proportion of the labour force and the resources required to generate jobs in traditional activities.

ferences in investment per employed person between modern and traditional activities. As an example, one may reflect on the fact that the gradual transfer of a given proportion of the EAP from agricultural activities to modern industry implies dealing with significantly more than the already high difference between the respective capital-labour relations.¹⁴ It implies meeting the greater resource requirements of the differences in productive infrastructure, without which modern industry could not operate. It also requires taking into account the differences in social infrastructure in urban areas *versus* traditional rural areas, and their implications in terms of resources. Finally, it requires committing resources to satisfy the differences in per capita consumption between the level associated with the new occupations in modern activities and that prevailing in traditional rural areas. One part of this greater consumption by the population group transferred is required for reasons of *functionality* at the higher levels of productive efficiency of modern activities.¹⁵ Another part is explained by the social pressure to identify with the urban patterns of consumption and the legitimate desire to participate in the fruits of the greater productivity achieved.

Thus, the difference in resources required to generate jobs in modern activities *vis-à-vis* traditional activities is not only a result of trends in technology and scale of plants in modern industry *versus* those predominating in traditional agriculture, which already in themselves lead to sharp differences in investment per person. It is also a result of a series of phenomena —with their corresponding expression at the level of resource use— which

¹⁴ Even at the level of the units of production, there are additional expenditures of resources involved in the transfer which transcend the notion implied in a capital-labour relationship. Accordingly, technology and know-how are not free goods, and this cost is present in the transfer. Similarly, the type of efficiency required by a modern productive process makes it necessary to organize the plant and allocate resources for a continual and ongoing system of apprenticeship and on-the-job training.

¹⁵ And, in this sense, it would be required for the process of labour transfer. A modern plant requires behaviour, habits and permanent labour contracting which are difficult to achieve without this greater consumption, both for reasons of incentives and because it is materially required in order to develop this behaviour.

are indispensable if the modern activities are to develop, function more or less efficiently and retain the labour necessary in a form which is functional for their development.¹⁶ As a result, different variants of models or styles of development of modern activities may lead to different resource requirements for the transfer, even in a similar historical and technological context.

There are no indicators available which, if added to the incidence of the diversity of phenomena mentioned, would reflect the difference in resource requirements for generating employment in modern non-agricultural activities in Latin America in the period 1950-1980. Nevertheless, if we accept that the differences in productivity between modern and traditional activities express, to some extent, differences in resource requirements per person, we have, in a broad sense, an indirect indicator, especially in understanding the evolution of the phenomenon discussed.¹⁷ Although in reality the difference in resource requirements per employed person might be *lower than* the difference in productivities between modern and traditional activities, the relevant point is whether the evolution of the respective productivities is an acceptable *proxy* for the long-term behaviour of this difference in resource requirements.¹⁸ If this hypothesis is correct, the

¹⁶ This is one of the principal factors which is usually ignored when, in analysing the resource requirements for transferring labour to more productive activities, it is concluded that it is just this greater productivity that will make possible the real financing of the effort. As observed, the pressure on the resources is much greater than the initial investment effort alone in the modern plants. And, perhaps more important, the commitment of resources involved is implemented *before* the modern plant can reproduce, with its production flow, the financing of *all* the expenditure of resources involved. In other words, although the modern sector may operate with high productivity of the resources invested and a high saving coefficient, the *amount* of the initial requirements and the *delay* in time between the initial requirement and the implementation of the new flow of production implies real saving needs which necessarily bring pressure to bear on the product and saving capacity in the modern activities which *are already in operation*. The contribution of these new activities may be high, but it requires *time* to materialize. Thus, this process begins to introduce a *limitation of resources* which is not absolute but rather temporary, from period to period.

¹⁷⁻¹⁸ To avoid confusion, it is worth clarifying the meaning of the above. In more technical terms, the significance of a limited process of technological spread —particularly technological progress which is not incorporated in capital

increase over time in the already originally high *difference* in productivities could be accepted as an indicator that the difference in resource requirements per employed person tends to rise in the period analysed.^{19, 20} This would imply accepting a growing expenditure of resources during the period, for the transfer of labour from traditional agricultural areas to modern non-agricultural activities, which would have acted as a restriction, extending the length of time necessary to implement the absorption of the bulk of the traditional EAP.

The relevant difference in productivities

goods— would lead to the assumption that: (i) differences in productivity would not necessarily be explained by the differences in the capital-labour relations between modern strata and traditional agricultural strata; and (ii) the difference in the growth rate of the respective productivities would not necessarily be explained by the difference in the growth rate of the respective capital-labour relations. But this is *not* the point under discussion; the text emphasizes the difference in resource requirements in general, not only capital requirements, and thus it does not focus attention on capital-labour relations but rather on the resource relationship in general, per employed person, in modern *versus* traditional strata. In this sense, technological progress, even that which is not incorporated in capital goods, brings pressure to bear not only on the capital of the modern establishment that incorporates it, but *also* on a wide range of additional functional resources required for its absorption with a minimum of efficiency. There is thus a need for apprenticeships and on-the-job training, know-how and management capacity, whose generation implies a cost in resources. Furthermore, the absorption of technical progress in a modern establishment, for it to yield a minimum of efficiency and result in increases in productivity, requires *surroundings* and a *context* that are functional to this process; it requires habits of behaviour and discipline within the establishment and *outside* of it. It necessitates a certain standard of living for those working in the establishment and for those working *outside* the establishment whose work is vital to the former for reasons of interaction (and this both for reasons of yield and for reasons of incentives). It thus requires a productive and socially functional infrastructure, and a standard of living and training for the workers inside the modern establishment and for those workers outside the establishment with whom the former interact. As a result, reaching a given level of productivity in modern *versus* traditional strata is not only a problem of more per capita capital invested in the establishment of this stratum, it is also —basically— a problem of reproducing *surroundings* or a *context* where the modern establishments are inserted, and without which the increases in productivity would not be realized with the same intensity. Thus, the significant point is not the difference in capital-labour relations between the modern establishments and traditional ones; what is relevant is the general pressure on resources required to employ a person in one context or the other. It is in this sense that the differences in productivity are more acceptable as *proxy*.

which could act as *proxy* is that between modern non-agricultural strata and traditional agricultural strata.²¹ This implies studying the evolution of the productivity between modern and traditional strata, and identifying the respective segments in each sector. Information is not yet available for the Latin American countries as a whole which would make it possible to estimate the long-term evolution of productivity among strata. Nevertheless, it is possible to infer something from the long-term evolution of the inter-sectoral difference in productivity by taking into account the probable trends in the modern segments in terms of product and employment, within the productive sectors being compared. Thus, by comparing the 1950-1980 evolution in non-agricultural productivity with agricultural productivity, if there is an increase in the difference in productivities it may be concluded that the difference in productivities between the *modern* non-agricultural activities and the *traditional* agricultural activities has increased even more, since (i) in the non-agricultural sector the increase in the share of modern activities in the product was greater than their share in employment; (ii) it is not likely that productivity in traditional agricultural activities has grown more rapidly than agricultural activity; on the contrary, the opposite would be expected.

¹⁹Or they are not decreasing at the speed necessary to have a decisive impact on the rate of job creation in the modern sector within a reasonable period of time.

²⁰Even recognizing a long-term increase in the productivity of the resources in modern activities, the above implies accepting that the *difference* between the growth in productivity and the growth in per capita resources in these activities is very low, and that the increases in the productivity of the resources in modern activities is very slow.

²¹Relevant in the sense of the high proportion of the labour force which was and is to be transferred from one to the other sector in Latin America. It would be theoretically possible today to identify some activity, in an advanced economy, whose productivity when compared with that of the modern activities shows a *similar* difference to that shown in Latin America between modern non-agricultural activities and traditional agricultural activities. But the relevant point is that the labour force employed in this particular activity would be a *tiny* proportion of the labour force of the modern sector. This is not only a problem of differences in productivity and requirements but also the size of the transfer and the proportion of the labour force employed at low levels of productivity which is to be transferred.

Table 5 provides some data on the evolution, from 1950 to 1980, of the *difference* between agricultural and non-agricultural productivities in the 14 Latin American countries analysed in this study. In Latin America, agricultural productivity was exceptionally low in 1950 in comparison with non-agricultural, in relation to the experience of today's advanced countries in a similar phase of the displacement of their respective EAPs.²² For the region as a whole the *difference* in productivities—equivalent in 1950 to four times the agricultural productivity of the base year—has grown significantly over the three decades. In 1980, it totals an equivalent of 7.5 times the agricultural productivity of the base year.²³ This result for the region as a whole is representative of what occurred in practically *all* the countries, since, with the sole exception of Argentina, all show increases in the difference in productivities in the period 1950-1980.

As a result, if we take the statement of the previous paragraph as an indicator of what occurred with respect to the difference in resource requirements per person, we could conclude that, over the period 1950-1980, the expenditure of resources implied in the transfer of a given contingent of agricultural EAP tended to increase significantly (for the region as a whole, at a rate of 3% annually). But if we also admit that modern non-agricultural productivity grew during this period at a higher rate than total non-agricultural productivity, and that traditional agricultural productivity did so at a lower rate than total agricultural productivity, then the expenditure in resources

required for the transfer of a given contingent of the EAP to modern non-agricultural activities must have grown at substantially higher rates than what would be suggested by the increase in the difference in productivities shown in table 5 (thus, at rates much *higher* than 3% annually for the region as a whole).

A complementary aspect of the above is related to the importance which the expenditure of resources might have had in the process of transfer as a limiting factor for the absorption capacity of the modern non-agricultural segments. An indicator which suggests that this must have been significant is the fact that the difference in productivities between non-agricultural and agricultural, as a proportion of non-agricultural productivity, rose in 1950 to 79% for the region as a whole, excluding Argentina²⁴—which implies that as a proportion of the surplus per person employed in non-agricultural activities, the percentage must have been much higher—when, as mentioned, the share of the modern non-agricultural sectors in total employment was relatively low that year. In 1980, the difference in productivities continued to represent 78% of non-agricultural productivity, but now with a much greater relative weight of the modern non-agricultural sectors. All this suggests that the expenditure of resources involved in the process of transfer must have played an important role, but with the passage of time the growth of the productive potential of the modern segments generated a greater possibility of covering this expense.

All the above leads to one conclusion. Both the initial size of the difference in resource requirements per employed person and their probable trends in the period 1950-1980 are phenomena which have influenced the rate of absorption of labour in the modern segments of Latin America. It is therefore particularly relevant to bear in mind that the experiences of today's advanced countries, in similar phases in the evolution of their respective job struc-

²² Latin America does not show—as did the majority of today's advanced capitalist economies in their time—a massive and complete productive transformation of the agricultural sector which precedes or accompanies the development of the modern non-agricultural strata. As a result, part of the explanation of the relatively high differences in requirements is that in Latin America, because of the relatively low level of productive transformation, agricultural activities require a low level of resources—in a broad sense—to generate jobs.

²³ Recall that since it is a question of a *proxy* for the behaviour of the *absolute difference* between the resources requirements per person employed in modern activities and those corresponding to traditional activities, the significant point is the *difference* in productivities at the start of the period, and the evolution of this difference through time.

²⁴ If we accept the difference in productivities (non-agricultural, agricultural) as a *proxy* for the resource requirements associated with the transfer of labour from traditional areas to modern non-agricultural activities, it is relevant to note that the productivity in the latter is also an indicator of the per capita productive potential, from which the real financing is obtained to cover these requirements.

Table 5

LATIN AMERICA: DIFFERENCES BETWEEN AGRICULTURAL AND NON-AGRICULTURAL PRODUCTIVITIES, 1950-1980^a

(Agricultural productivity in 1950 = 100)

	Agricultural productivity		Non-agricultural productivity ^b		Difference between non-agricultural and agricultural productivity	
	1950	1980	1950	1980	1950	1980
<i>Group A</i>						
Mexico	100	260	770	1 507	670	1 247
Panama	100	175	244	432	144	257
Costa Rica	100	213	294	498	194	285
Venezuela	100	412	1 000	1 336	900	924
Brazil	100	242	752	1 837	669	1 595
Colombia	100	265	233	409	133	144
Guatemala	100	192	400	611	300	419
<i>Group B</i>						
Peru	100	154	500	758	400	604
Ecuador	100	166	278	662	178	496
Bolivia	100	155	769	964	669	809
El Salvador	100	143	303	406	203	263
<i>Group C</i>						
Argentina	100	235	192	285	92	50
Chile	100	174	370	650	270	476
Uruguay	100	141	151	272	51	131
<i>Latin America</i> (14 countries)						
	100	216	500	967	400	751
<i>Latin America</i> (excluding Argentina)						
	100	234	481	1 067	381	833

Source: Based on figures on the gross sectoral product provided by the CEPAL Statistics Division, and data on the sectoral EAP provided by PREALC.

^aProductivity defined as product per economically active person.

^bIncludes mining.

tures, do not show a very pronounced initial difference in productivities, nor is the long-term behaviour of this difference of the same intensity as that of the Latin American experience—which would suggest that the expenditure of resources involved in the transfer plays a less significant role as a limiting factor in the absorption capacity of their respective modern segments.²⁵

²⁵As shown in table 5, in Latin America the relationship between non-agricultural productivity and agricultural productivity remains practically constant in the long

term; it went from 4.8% to 4.6% between 1950 and 1980. As an illustration of the discussion in the text, let us recall that in the United States the same relationship drops from 3.8% to 2.1% between 1870 and 1903. In Sweden, the relationship declines from 2.3% to 1.7% between 1891 and 1920. See C. Clark, *The Conditions of Economic Progress*, London, MacMillan & Co. Ltd., 1951; S. Kuznets, "Quantitative Aspects of the Economic Growth of Nations: II. Industrial Distribution of National Product and Labour Force", in *Economic Development and Cultural Change*, Chicago, Research Center in Economic Development and Cultural Change, July 1957, supplement to volume V. (Quoted by V.E. Tokman, *Desarrollo desigual y absorción de empleo (América Latina 1950-1980)*, Santiago, Chile, PREALC, 1981; preliminary draft.)

Obviously, behind the high and still growing resource requirements for employing labour in the modern sectors lies the problem of the composition of investment by destination which, as already implied, responds to the characteristics of the models or styles of development current in the region in the period analysed, in the same way that other characteristics of the same styles explain the use of resources and the behaviour of productivity in traditional agricultural areas. It is not the purpose of this study to discuss relevant interpretations in this respect. But it is important to point out one implication: both the high difference in resource requirements involved in the process of absorption in modern areas, and the problems of composition of investment within these areas, would lead to the hope that the effort at capital formation to carry out the transfer of the bulk of the EAP to modern activities should be more intense and prolonged than has been shown by today's advanced economies during their respective processes of change in their occupational structures.

As a result, both points —high and still growing difference in resource requirements per person between modern activities and traditional agricultural activities and problems of composition of investment within the modern sectors— are *part* of the explanation of why, despite the strong efforts at capital formation made by Latin America between 1950 and 1980, they have been insufficient to absorb all the labour transferred from agricultural activities to the modern segments. In other words, even experiences which generate a surplus amount and show a higher accumulation rate than those of today's advanced economies in the period of transfer of the bulk of their EAP to modern activities may require longer periods of time to complete this process if the impact of this higher rate of accumulation is mediated by the two factors mentioned above.

It is thus understandable why many of the countries analysed in this study, with gross investment coefficients and economic growth rates in the period 1950-1980 which place them at the level of or even above the record of today's advanced countries in the corresponding transition period, do not manage to absorb all the displacement of the active population

from the agricultural sector in their modern segments.²⁶

A glance at table 6 will show that all the countries of Group A—except Guatemala—are moving towards high investment coefficients in the period.²⁷ In some cases, they even *begin* the period with *higher* investment coefficients than the maximum reached by today's advanced capitalist economies in their respective transition phases and *maintain* the effort for 30 years. (See, for example, the cases of Brazil and Venezuela.)

In Group B—except Peru in the first half of the period— all the countries show—in 1950-1980— a lower investment effort than that shown by Group A, despite the increases in their respective coefficients in the last decade, once again excepting Peru.

Group C—as mentioned, with a much more advanced process of EAP transfer to modern sectors and lower EAP and urban EAP growth rates than the rest of Latin America— tend to exhibit a relatively less effort at capital formation than Group A (even though the long-term trend shows significant changes in the latter part of the period in some of the countries of this group, which makes it difficult to draw conclusions).

As a result, although the countries of the region showing a significant reduction in underemployment and higher growth rates of employment in the modern non-agricultural sectors (Group A) in 1950-1980 are the same ones which show relatively greater efforts in the area of gross investment, it is nonetheless true that after 30 years of such efforts—very strong by international standards— they do not manage to absorb all the EAP displacement of the period in their modern segments.

²⁶From 1870 to 1900, the United States shows a similar growth rate in the EAP and a process of urbanization similar to those of Latin America since 1950. It is also the country which, in the period of transition, showed the greatest efforts at capital formation. Between 1870 and 1910 its investment coefficient grew from 19% to 23% of the product, later to decline and stabilize after 1920 around 16%. All the other capitalist experiences of the period have *lower* long-term investment coefficients than those of the United States, but they also have lower total EAP growth rates and urban EAP growth rates than those of the United States.

²⁷High in relation to the experience of today's advanced countries in the equivalent transitional phase.

Table 6

LATIN AMERICA: EVOLUTION OF THE GROSS INVESTMENT COEFFICIENT
WITH RESPECT TO THE GDP, 1950-1980^a

	Five-year periods					
	1950-54	1955-59	1960-64	1965-69	1970-74	1975-79
<i>Group A</i>						
Mexico	17.6	17.8	18.7	21.0	21.3	22.2
Panama	14.0	16.6	17.9	21.6	27.5	22.4
Costa Rica	17.4	18.8	18.6	20.2	22.1	26.5
Venezuela	47.0	42.9	26.1	26.8	30.6	41.4
Brazil	23.9	22.8	21.9	22.7	26.8	29.8
Colombia	24.2	24.2	21.5	20.5	20.5	19.1
Guatemala	10.2	15.6	11.3	12.8	13.1	16.5
<i>Group B</i>						
Peru	24.2	22.6	19.6	18.4	15.6	15.4
Ecuador	11.3	13.6	12.6	12.5	21.4	22.8
Bolivia	10.1	13.4	14.2	17.3	17.7	20.5
El Salvador	11.3	12.2	14.7	15.4	15.6	19.8
<i>Group C</i>						
Argentina	15.2	14.8	18.7	17.9	20.2	20.6
Chile	15.1	14.4	15.4	15.1	13.1	9.0
Uruguay	17.5	13.3	12.5	9.8	11.0	14.8

Source: CEPAL Statistics Division.

^a Five-year coefficients, simple average of the annual coefficients, in percentages.

As expressed in the previous paragraphs, it is not incompatible to say that the investment coefficients of Group A were *high* but at the same time *insufficient* to absorb all the transfer of labour from agricultural areas. But by presenting it in this way, one implicitly adopts an approach which places all the emphasis for the explanation of the long-term adjustment process on the *amount* of capital formation. If the two factors mentioned above are introduced—high and still growing difference in the resource requirements needed to generate jobs in modern activities *versus* traditional activities and problems of composition or destination of investment *within* the modern activities—the explanatory emphasis changes and now includes other phenomena, closely associated with the implications of structural heterogeneity²⁸ with respect to the use and generation of

resources. Both the sharp difference in resource requirements for generating employment in modern activities *versus* traditional activities—and their rapid growth—and the problems of the composition of investment within the modern segments are phenomena which are closely associated with the heterogeneous nature of the productive structure and with the maintaining of this nature as an essential feature throughout its development (thus, to say that Latin America shows a much higher difference in resource requirements for generating employment in modern strata *versus* traditional strata than that shown in their time by today's advanced capitalist economies, and to recognize that the long-term evolution of this difference was very dissimilar in the two cases, is equivalent to accepting that Latin America has had a much more pronounced heterogeneity which has lasted a much longer time historically, than that of today's advanced economies (as a result, it is not only a problem

²⁸In the sense expressed by Aníbal Pinto in "Concentración del progreso...", *op. cit.*

of insufficient capital formation —more clearly perhaps in the countries of Group B— but essentially of the greater or lesser homogenizing effects which might result from the long-term

evolution of a given composition and destination of resource use in general and the structure of investment in particular.

IV

Additional reconciling factors

Section II presented a hypothesis to explain why a significant investment effort leads to a high absorption of labour in modern non-agricultural strata, but that it is insufficient to neutralize the quadruple impact of: (i) natural growth of the urban labour force; (ii) rural-urban migration; (iii) behaviour of the urban rates of participation; (iv) initial size of urban underemployment. The framework of the situation as perceived in the non-agricultural area is a very high growth of employment in modern non-agricultural strata, accompanied by a significant growth in underemployment. In this section, we will discuss three phenomena which need to be taken into account in any explanation which tries to reconcile the different hypotheses under discussion: (i) growth of the urban EAP; (ii) initial weight of the modern non-agricultural strata; (iii) employment in the modern agricultural strata.

1. *Growth of the non-agricultural EAP, 1950-1980*

Table 7 summarizes the information on the growth of the total EAP and non-agricultural EAP in the period under analysis. From this it can be seen that between 1950 and 1980 the total EAP —excluding Argentina— grew at a rate of 2.5% annually. Even more important, the non-agricultural EAP —excluding Argentina— increased at a rate of 4.1% annually, reflecting the triple impact of natural urban growth, rural-urban migratory pressure and the behaviour of the rate of participation. In particular, the countries in Group A show a *higher* average growth in their non-agricultural EAP than the Latin American average, or approximately 4.4% annually.

The first relevant fact is that the growth of the labour force and, in particular, that of the non-agricultural labour force, was very high during the period. Undoubtedly, it was much higher than the respective growth of the labour force —total and non-agricultural— of today's advanced European countries in their respective phases of change in their occupational structures. But with respect to the United States, the results of the comparison are different: from 1870 to 1903, the annual growth of the United States labour force was 2.4% on average annually, a figure similar to that of Latin America in 1950-1980, and slightly lower than that of Latin America excluding Argentina.²⁹ In the period 1870-1903 annual growth in the United States urban labour force totalled 3.7%, a similar figure to that shown for Latin America, but significantly lower than that of Latin America excluding Argentina (4.1%), and still lower than that of Group A (4.4%). As a result, if we exclude Argentina, the growth of the *non-agricultural* labour force in Latin America in 1950-1980 appears to have been *higher* than that of the United States in the relevant period of comparison; and here it should be recalled that among today's advanced economies, that of the United States had the highest rate of non-agricultural EAP growth during the period of change in its occupational structure.

²⁹The period 1870-1903 was chosen because during this period the proportion of the agricultural labour force as a percentage of the total fell from 55% to 35% in the United States, showing similar figures to those of Latin America between 1950 and 1980. See V.E. Tokman, *Desarrollo desigual...*, *op. cit.* The figures cited, as well as those used in the text, come from S. Lebergott, *Manpower in Economic Growth: The American Record since 1800*, New York, McGraw Hill, 1964.

Table 7

LATIN AMERICA: GROWTH OF THE EAP,
1950-1980

(Annual cumulative average rates, in percentages)

	EAP total	Non-agricultural EAP
<i>Group A</i>		
Mexico	2.5	4.5
Panama	2.7	3.9
Costa Rica	3.2	4.8
Venezuela	3.1	4.6
Brazil	2.8	4.4
Colombia	2.4	4.1
Guatemala	2.5	3.7
<i>Group B</i>		
Peru	2.1	3.8
Ecuador	2.7	3.9
Bolivia	1.5	3.3
El Salvador	2.7	4.0
<i>Group C</i>		
Argentina	1.4	1.9
Chile	1.6	2.2
Uruguay	0.8	1.0
<i>Latin America</i> (14 countries)	2.4	3.7
<i>Latin America</i> (excluding Argentina)	2.5	4.1

Source: PREALC estimates.

It is in the above-mentioned sense that it may be asserted that the long-term growth of the non-agricultural labour force in the relevant countries of Latin America³⁰ was more intense in 1950-1980 than that of the advanced European and United States economies in the past.

A second aspect of interest arises from the contrast between the second column of table 7 and the first column of table 1. From this it may

³⁰As explained in section II, the study centres its attention on the process of long-term transfer of labour from the agricultural sector to non-agricultural sectors. Given the fact that by 1950 Argentina had already completed the bulk of this transfer—in that year, only 27.5% of its EAP was in the agricultural sector—it is fair to exclude Argentina from the series of countries of the region, especially for international comparisons.

be inferred that in Latin America, excluding Argentina, the growth rate of employment in modern non-agricultural activities was *slightly higher* than the growth rate of the non-agricultural EAP (4.2% as against 4.1%). In particular, in all the countries of Group A the growth rate of modern non-agricultural employment exceeded the growth rate of the non-agricultural EAP, except in Brazil, where the two are equal. In all the countries of Group B the same occurs—except in Ecuador where the growth rate of non-agricultural employment is lower.

Thus, although in most of the countries of the region the growth rate of the non-agricultural labour force was *higher* than that of the United States and today's advanced economies of Europe, the expansion of the modern strata generated a modern non-agricultural employment growth rate which was equal to or higher than that of the respective labour force.

2. Initial weight of the modern non-agricultural strata

To evaluate the incidence of the growth rate of modern non-agricultural employment *versus* the growth rate of the non-agricultural labour force, it is relevant to take into account the relative *initial* weight of the two. For Latin America—excluding Argentina—, as shown in table 2, the weight of modern non-agricultural employment in 1950 was 26.3% of the total EAP, while the non-agricultural EAP represented nearly 40% of the total EAP that year. As a result—and this is a factor which is not usually taken into account—even though modern non-agricultural employment grew in 1950 at a slightly higher rate than that of the non-agricultural EAP, the significant point is that the respective growth rates operated on very different bases or amounts, the first being only two-third of the second. Accordingly, the *absolute annual increases* in modern non-agricultural employment were *lower* than the *absolute annual increases* of the non-agricultural labour force, which explains the raising trend in non-agricultural underemployment. Naturally this is not an explanation of the trends recorded, but it does make it possible to reconcile the trend in non-agricultural under-

employment with the rapid growth of modern non-agricultural employment.

3. *Employment in modern agricultural activities*

A third relevant factor to be taken into account is the evolution of the relative weight of the modern agricultural strata. For Latin America as a whole, from 1950 to 1980, this fell from 22.2% to 12.3% of the total EAP. All the countries of Group A —except Panama— and all the countries of Groups B and C show a significant decline in their share of the *modern* agricultural strata in the total EAP. In *relative* terms, this reduction is more important than that shown in the *traditional* agricultural strata, whose share dropped from 32.5% to 22.6% of the EAP of Latin America in the same period.³¹ Thus, although high growth rates of modern non-agricultural employment are shown, ac-

companied by high growth rates in the non-agricultural EAP —with the resulting rise in urban underemployment— the results in regard to *total* underemployment may vary according to the greater or lesser capacity for retaining labour shown by the modern agricultural strata *vis-à-vis* the traditional agricultural strata. Thus, the countries of Group B —except Ecuador— are characterized by having shown a *higher* growth rate of modern non-agricultural employment than the growth of the non-agricultural EAP, but with a drop in the proportion of the agricultural EAP in the total EAP, which is explained more by the decline in modern agricultural employment than by that of traditional agricultural employment. Consequently, in these experiences the high growth of modern non-agricultural employment co-exists with the continuation of a significant proportion of agricultural underemployment.

V

Conclusions

It is now possible to draw together the various elements described in the preceding sections to obtain a more integrated view of their incidence:

1. The countries in Group A, during the period 1950-1980, showed the greatest investment efforts in Latin America, at a comparable level and in some cases higher than those of the United States and the European experiences during their respective processes of change in their occupational structures. This group also shows the highest growth rates of modern non-agricultural employment—in the range of 4.2% to 5.2% annually over 30 years—, and these are higher than the respective growth rates of the non-agricultural EAP in all the members of the group. The group is also characterized by a

higher retention of employment in modern agricultural activities.³² This clarifies why this group shows a significant reduction in the total underutilization rate between 1950 and 1980, essentially due to the slow but continual decline in total underemployment. In particular, one of the characteristics of this process is the sharp reduction in agricultural underemployment, at a faster rate than total underemployment.

2. In addition, Group A is characterized by having shown the highest rates of non-agricultural EAP growth in the region between 1950 and 1980, in a range of 4.0% to 4.8% annually, with a group cumulative average of 4.4% annually over the 30 year period. Among today's

³¹For a description of what occurred in the relative proportion of the modern and traditional agricultural EAP in the countries of the region, see PREALC, *Dinámica del subempleo...*, *op. cit.*, table 1 and section B of the annex to chapter II.

³²Except for two experiences —Venezuela and Costa Rica— which showed a sharp decline in the relative share of modern agricultural employment in total employment; but in both cases, it is neutralized by the high absorption of the modern non-agricultural strata, without any consequences in terms of non-agricultural underemployment.

advanced countries, there is simply no experience whatever which has such a record. (As can be seen, the country which showed the highest growth rate of the non-agricultural EAP in its period of change in occupational structure was the United States, with a rate of 3.7% annually between 1870 and 1900.) Thus, the pressure of the labour supply in the countries in Group A acquires special significance in explaining what occurred in these experiences. At the same time, the initial weight (1950) of the modern non-agricultural strata in total employment was, in the countries of the group fairly low—slightly higher than the already mentioned average of 26.8% for Latin America excluding Argentina—and substantially lower than that of non-agricultural employment in total employment. (Accordingly, although the high rates of modern non-agricultural employment growth remained slightly above the growth rate of the non-agricultural EAP in the period, the difference in the relative initial weight explains why the absolute increase in modern non-agricultural employment was lower than the absolute increase in the non-agricultural EAP.) Finally, all the countries of the group had a much higher initial degree of structural heterogeneity than that of the experiences of today's advanced countries and, between 1950 and 1980, different—and more unfavourable—trends in this area than those shown in the above-mentioned experiences during comparable historical periods. This tended to be expressed in a much higher resource requirement for dealing with the transfer of significant proportions of the EAP to modern strata, in comparison with a comparable period in today's advanced countries. These higher requirements mediatized the impact of the great investment effort on the absorption capacity of modern strata, operating as a break on the speed of this process.

The three factors above led to pressures in the direction of *prolonging* the period of time required to complete the process of absorption of the bulk of the EAP in modern non-agricultural strata which were substantially stronger than those experienced by today's advanced countries.

3. If we now analyse the interaction of the factors described in the first and second para-

graphs, we see that Group A's high rates of absorption in modern non-agricultural strata is perfectly reconcilable with the declining presence of serious underemployment problems. In particular, the growing importance of non-agricultural underemployment—or expansion of informal urban activities—is also explainable as an expression of the imbalance between absorption into modern non-agricultural activities and strong supply pressures.

4. With respect to Group B, the relative investment effort during the period 1950-1980 is substantially lower than that of Group A, and so are the employment growth rates in the modern non-agricultural strata—in this case, in the range of 3.0% to 4.2% annually. This group does not show as sharp a reduction in agricultural underemployment as Group A, a fact which is partly explained by the higher proportion of labour in the agricultural sector. Nor is there retention of employment in *modern* agricultural activities; on the contrary, the latter have lost relatively more significance in total employment than in Group A.

In addition, Group B shows lower non-agricultural EAP growth rates in 1950-1980 than Group A—they are closer to those shown by the United States in 1870-1900—but the initial weight (1950) of the modern non-agricultural strata in total employment is substantially lower than the already low levels of Group A. Group B also shows the influence of structural heterogeneity on resource requirements; and one might speculate here that this must have been even more accentuated in this group than in Group A.

5. What is described in point 4 explains why, in Group B also, it is perfectly reconcilable that there should be a significant growth of employment in modern non-agricultural sectors—although less intense than in Group A—along with a persistence of high levels of underutilization, which are higher than those of Group A and not declining. As a result, unlike Group A, the reconciliation of the initial hypotheses of this study acquires, in this case, a different character: the absorption in modern non-agricultural strata is slower, and the total underutilization rate does not show any significant reduction. Underlying this last piece of information is the fact that the growing urban-

ization of underemployment takes place in this group *without* the same reduction in agricultural underemployment as in Group A. In other words, the imbalance between absorption in the modern non-agricultural strata and supply pressures occurs in the framework of very high contingents of labour surplus still retained in the agricultural sector.

6. The special characteristics of the countries of Group C, especially the change in long-term trends produced by the drastic modification of the strategic growth models adopted by them in the second half of the past decade, prevent us from making the same analysis of the long-term process as was discussed for the two previous groups. In any case, the different character of the problem faced may be emphasized, because these experiences have made much more progress than the rest of the region in the process of transfer of labour to modern strata, inasmuch as they present a total EAP and non-agricultural EAP growth rate which is significantly lower than that of the rest of Latin America, and they have been functioning with a considerably lower level of expansion and intensity of underemployment than the regional average. Even so, they are not an exception to the generalized trend towards a growing proportion of urban underemployment.

7. An additional point which can legitimately be introduced is related to the growing degree of urbanization of underemployment, even in those experiences which show a decline in total underemployment. One might reflect that a change in the composition of underemployment in the direction mentioned might be judged as an improvement in the standard of living of those affected, to the extent that the intensity and characteristics of agricultural underemployment make it a more difficult situation. On the other hand, the hardships arising from

underemployment become more intolerable for persons who have to endure them in an environment in which the fruits of abundance are more clearly visible, such as in the urban environment. But the main point on this refers to the greater or lesser social productive contribution which this change assumes. And on this subject it is not at all clear that the social productive contribution of an urban underemployed person is much greater than that of a rural underemployed person. Nevertheless, it is undoubtedly a factor whose consideration is becoming decisive for those who are trying to appraise the progress made in the past decades in this area.

8. Lastly, it is feasible to integrate all the discussions of the previous paragraphs to reflect the predominant trend in Latin America as a whole. Essentially, this summary will be limited to pointing out, as the principal features of the period 1950-1980, a significant growth in the absorption capacity of the modern non-agricultural strata and a slow decline in the coverage and intensity of underemployment in a context of growing urbanization of this underemployment.³³ But, as we have seen, to explain this apparent paradox—as it appears to be if we contrast the experience of the region to that of today's advanced countries—it is essential to understand that the behaviour of the region as a whole conceals different trends by groups of countries and, especially, that the principal phenomena which determine the results under discussion act with varying intensity in the different groups.

³³Recall that the three tendencies noted—especially the *slow rate* at which underemployment is reabsorbed—are a result of the interaction of the data recorded for the three groups analysed.

The limits of the possible in regional planning

*Carlos A. de Mattos**

In spite of the growing importance assigned by Latin American governments in recent years to regional planning, due attention is still not given to the national and international historical processes which set in motion the spatial dynamics and shaped the particular spatial structures of each country.

In the view of the author, consideration of these processes is of fundamental importance for identifying the limits and restrictions affecting regional planning and hence determining the possibilities which this activity can have in the historical situation in which it is carried on. On the basis of this criterion, he analyses the problem of the limits of the possible in the case of regional planning, in the light of the conditioning factors imposed by a particular historical context.

For this purpose, in the first part of the article he considers the spatial implications of the process of formation of a national system, seeking to infer from this the specific restrictions arising with regard to the development of the different areas of the respective territories, and possible action designed to modify this situation.

In the second part, he shows how the national systems—once the dominant social forces have adopted a particular political project—acquire a definite spatial dynamic which leads to the formation of a particular territorial structure where the roles of each of the different subnational units are established.

Finally, in the third part he analyses the different factors which become restrictions on the possibilities of action in the field of regional planning and examines the way in which these factors define and limit the area in which the planner can move when acting as such.

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I

Introduction

A recent review of the content of the development plans currently in force in the majority of Latin American countries¹ reveals greater concern with regional problems than was observed in the plans formulated during the 1960s. In most cases, this can be attributed on the one hand to the realization that such problems have persisted and even got worse, and on the other hand, to the important social and political consequences which have been resulting from them.

Outstanding among these problems is the disparity in living conditions affecting the population located in different areas of a given national unit, which has shown a strong tendency to persist and even, in many cases, to increase. In the second place comes the phenomenon of the territorial concentration of activities and population in a very small number of areas—and especially in one single area—which has given rise to the formation of metropolitan regions whose relative weight in productive and demographic terms is disproportionately greater than that of the remaining components of the national urban system.

At the same time, it has been observed that these phenomena have shown great persistence regardless of the variations in the growth rate of each country as a whole, and in the face of this evidence the conviction has been growing that growth by itself does not lead to any diminution of these processes, as many authors had been maintaining. Moreover, the continual increase in territorial concentration has been obliging countries to assign a growing volume of resources in order to cope with the problems of the functioning of these areas, and it has been perceived that this can negatively affect the dynamics of the process of productive accumulation of the country as a whole.

On this basis, it has come to be recognized that at least some degree of State intervention is necessary if it is desired to achieve some kind of correction of these imbalances: hence the

¹ILPES, *El desarrollo regional en los planes de desarrollo*, Santiago, Chile, 1981 (mimeo).

increased importance which governments have begun to assign in the political sphere to regional planning, even though it must be recognized that for the time being this has not gone much beyond the level of intentions and declarations.

At the same time, because of the modest nature of the results obtained so far in the actual practical application of regional planning, growing concern is visible among planning specialists to find alternative ways which can make it possible to achieve greater effectiveness in this area. Such is the case of the so-called "upward model of regional planning"² which aims to give greater priority to action which could be initiated from subnational units (regions, States, local areas, etc.).

It may be observed, however, that these aims generally refer principally to the question

of planning procedures, so that the discussions which have arisen about them have generally relegated to the background the consideration of some of the substantive aspects of the historical processes in the course of which regional problems have been generated and whose consideration is essential in order to provide a suitable framework for action proposals; basically, these substantive aspects are related with the processes of formation of national systems, their intrinsic rationale and their concrete spatial dynamics. Ultimately, as Dunham points out, this means postulating that 'regional development' must be considered in the context of the structures and processes operating at the national and international levels, viewed historically and with specific reference to the social formations in which they occur.³

II

The formation of national systems: The assertion of a dominant rationale

In essence, planning may be viewed as a process which seeks to bring about a particular predetermined modification in the structure of a *part* (or parts) of a *whole*. Consequently, in order to analyse the feasibility of the proposed modifications it is necessary to try to identify some of the fundamental features and properties of the whole in which the part or parts in question are fitted.⁴

²See in particular Walter B. Stöhr, "¿Hacia otro desarrollo regional?", in Sergio Boisier *et al.* (eds.), *Experiencias de planificación regional en América Latina*, Santiago, Chile, ILPES/SIAP, 1981.

³David Dunham, "Algunas opiniones sobre investigación en el campo del desarrollo y la planificación regional", in Sergio Boisier *et al.* (eds.), *op. cit.*, p. 224.

⁴In this article the expressions *political project*, *national project* and *global model* are used as synonyms and it is considered that the style of development derives from the implementation of the prevailing political project. For the effects of the theories advanced in this article, the following explanation clarifies the sense in which these concepts should be understood: planning is conceived "as the effective technical instrumentation of a political pro-

In the framework of the problem of planning analysed here, the whole in question is made up of a national entity comprising regions, States or provinces whose structure it is desired to change. In order to analyse the fundamental features of this entity, it is necessary to study its process of formation as a *national system*, that is to say, as "a complex of interacting elements interrelated among themselves and with the environment"⁵ or, additionally, as "a set of interrelated phenomena which must

ject. We start from the premise that in every society and in every stage in its history there is an explicit or implicit political project with multiple or partial objectives, of a transforming, conservative or compromise character, referring to the more or less coactive distribution of power and social resources" (Aldo E. Solari, *et al.*, *El proceso de planificación en América Latina: escenarios, problemas y perspectivas*, Santiago, Chile, Cuadernos del ILPES series, 1980, p. 5).

⁵Ludwig von Bertalanffy, *General System Theory*, New York, C. Braziller, 1968.

be viewed as a whole if it is desired to understand any of its parts".⁶

In a first approximation of a general nature, it could be said that the formation of a national system in the course of the historical evolution of each country consists essentially of a process in which the pre-existing activities, as well as those emerging in the various areas and sectors of the country, establish mutual relations among themselves and become components or elements of the system: that is to say, they come to form part of the economic structure of the national entity. It is in this way that the so-called process of national integration must be interpreted.

From the spatial point of view, it may be observed that during the first stages of the historical evolution of national entities the limits of the incipient national system generally do not coincide with those of the national territory, because within the formally accepted frontiers of a country the articulated elements of the system usually coexist on the one hand with a set of dispersed and unconnected activities and, on the other, with substantial empty or unoccupied areas: by definition, neither of these form part of the national system which is taking shape in the territory, since they are not yet linked together by any type of relationship.

The sequence of territorial articulation of the various elements which go to make up a national system may be described as the result of a process of dissemination of innovations, understood as the introduction and satisfactory adoption of any product, technique, organization or idea perceived as being new in a particular social system.⁷ In the context of the analysis which it is desired to carry out here, particular stress should be laid on those innovations involving the introduction of institutional changes which are significant for the future development of the system; this refers basic-

ly to the restructuring of the forms of social organization of labour, which form a new dynamic of the process of generation, appropriation and utilization of the economic surplus. Ultimately, it will be this dynamic which will characterize the dominant rationale of the system being formed.

In its initial stages, the process of national integration mainly operates at the level of economic circulation, through the expansion of the market economy: the links that bind together the elements of the system in course of formation are established through the dissemination of mercantile forms and mechanisms. Thus, this stage is marked by the development of the process of articulation of capitalist activities with pre-capitalist activities. In effect, the expansion of the area of influence of the mercantile economy in the national territory implies the physical expansion of the national system and, consequently, the gradual unification within the latter's effective ambit of the factor and product markets. This also means the dissemination and adoption of a particular pattern of social consumption, which begins to be adopted at an early stage in the historical evolution of the respective countries.

In the transition from a colonial economy to a capitalist export economy based on primary sector activities, the expansion of the area of market economy within a national space progressively generated productive activities aimed at satisfying the effective world demand for certain kinds of goods, in accordance with the dictates of the then prevailing international division of labour. It should not be forgotten in this respect that this process took place at the same time that the national entities were consolidating their articulation within the world capitalist system. Thus, a process of introduction of different mechanisms of trade was developing, and these mechanisms, starting with the adoption of some simple type of general equivalent evolved up to the establishment and generalized adoption of a national currency, thus cementing the bases for the expansion and deepening of the process of national economic integration.

In more advanced stages, the system achieved greater expansion and consolidation through the penetration and generalized adoption of a

⁶Antonio Barros de Castro and Carlos Francisco Lessa, *Introducción a la economía. Un enfoque estructuralista*, Mexico City, Siglo XXI Editores, 1969, p. 4.

⁷Paul Ove Pedersen, *Urban-regional Development in South America. A Process of Diffusion and Integration*, The Hague, Mouton, 1975, p. 72. See also John Friedmann, "A General Theory of Polarized Development", in Niles M. Hansen (ed.), *Growth Centers in Regional Economic Development*, New York, The Free Press, 1972.

new type of social relations of production: in this particular case, the capitalist relation of production, which involved the introduction of forms of social organization of labour and of profound changes at the level of production. At the same time, it also marked the beginning of a long process of gradual reduction of pre-capitalist activities, but it should be emphasized that this process of reduction in no way signifies the total disappearance of pre-capitalist forms of production, as the vigorous persistence of the peasant economy shows.

In the case of the Latin American countries, it is possible to distinguish two situations in the formation of national systems:

(a) That of the countries or regions which were set up in practically empty territories, where the formation of a capitalist system was achieved in a relatively rapid and generalized manner. In this respect, Laclau notes that "only in the Pampas of Argentina and Uruguay and in other smaller similar areas where there had not previously been any indigenous population—or, if it existed, it was small in number and its members were rapidly exterminated—did the settlements assume capitalist forms right from the beginning, subsequently accentuated by the massive immigration during the nineteenth century".⁸

(b) That of the countries set up in territories where substantial activities of a pre-capitalist nature had already been carried on in the pre-Columbian period (outstanding cases are Mexico, Guatemala, Ecuador, Peru and Bolivia); here, the formation of the national system brought about the retreat of the pre-existing forms of social organization and their gradual articulation with the remaining activities in the system. These cases are examples of typical underdeveloped capitalist economies as defined by Benetti: "these are heterogeneous economies, characterized by the linking together of numerous different sections, among them the subsistence economy, small-scale mercantile production, national and foreign capitalist production and segments of State

capitalism. This heterogeneity is not incompatible with the unity proper to the category of the whole".⁹

Throughout this process, which began with the expansion and consolidation of the market economy, the situations of duality—understood here in its orthodox sense—which may have existed before have gradually been disappearing. Such situations may have been due to the survival of closed systems within each of the territories where a national system was being formed, with the result that once they had been articulated within the market economy these closed systems came to function as open subsystems of the national system.

In the process of formation of national systems, each nation-State played a fundamental role by progressively establishing favourable conditions for the expansion and consolidation of the new social relations throughout the respective national territory. This process came to a head in very specific periods of the history of each country, and in many cases the national history books have even associated such periods with the names of particular persons who promoted during their periods of government the achievement of greater articulation of the national economy into the world market through links with capitalist centres in the metropolitan countries. In these stages, particular effort was devoted to furthering the processes of expansion of internal frontiers and the establishment of conditions to consolidate processes of national integration under the aegis of capitalist production relations. Since these processes have still not been completed, it may be observed that many of the regional policies being carried out today in various Latin American countries have been established fundamentally with the aim of securing greater expansion and deepening of capitalism within the national territory.¹⁰

⁹Carlos Benetti, *La acumulación en los países capitalistas subdesarrollados*, translated by María Isabel Hernández, Madrid, Fondo de Cultura Económica, 1976, p. 88.

¹⁰In this respect, see for example the important study by Jorge Jatobá *et al.*, "Expansão capitalista: o papel do Estado e o desenvolvimento regional recente", in *Pesquisa e Planejamento Econômico*, Rio de Janeiro, Vol. 10, No. 1, April 1980.

⁸Ernesto Laclau, "Feudalismo y capitalismo en América Latina", in E. Laclau *et al.*, *América Latina: feudalismo o capitalismo*, Mexico City, Ediciones Quinto Sol (undated), p. 130.

When incorporated into the system, activities and areas which until then had not been connected come to play a role in it, and this role developed and was reproduced as a function of the process of the generation, appropriation and utilization of the economic surplus, which constitutes the guiding line of the overall process. In this way, a certain scheme of spatial division of labour was gradually imposed which has marked the national territorial structure in each of its stages; as Doreen Massey points out: "The economy' of any given local area will thus be a complex result of the combination of its succession of roles within the series of wider, national and international, spatial divisions of labour".¹¹

In the final analysis, in every process of formation of a national system within the framework of a capitalist economy the predominant social relations of production constitute the element which fixes the limits of and gives content to the process of the generation, appropriation and utilization of the surplus by the various interdependent parts of the whole in question. This means that there must be a *dominant rationale* which is inherent in the system and also, consequently, that there must be certain rules compatible with it which set precise lim-

its for the field of action within this system.

In this interrelated set of elements, linked together under the control of specific and concrete rules, any change which affects one component of the system has repercussions on the remaining elements, transmitting its effects through a process of successive chain reactions. The propagation mechanisms observed in an input-output matrix are a good illustration of such interdependence.

It may be inferred from the foregoing that it is useless to consider a particular part or subsystem in isolation from its systemic context; as Benetti points out, "the complete set is an entity which is radically different from the sum of its parts, whose nature and mutual relationships are modified by its presence in them. The complete set is a totality".¹² This means that the introduction of changes within a sub-national unit (region, State, province) cannot be approached independently of the national entity to which the unit belongs; if this were done, it would mean trying to modify a part while ignoring the presence of the totality, that is to say, ignoring the strength of the interdependence existing between the unit in question and other units or elements of the system.

III

The dynamics of spatial operation: The process of formation of regional centres of accumulation

As noted earlier, every time the agents which orient and control the decision-making process in a national society have defined and effectively adopted a particular political project (ultimately signifying the adoption of an accumulation, growth and distribution model), at the same time a certain form of spatial operation of the system is explicitly or implicitly established. In turn, this form of spatial operation

means that, in general terms, each of the parts of this totality made up by the national system has been assigned the functions which it is supposed to fulfil. Specifically, this means that the fundamental lines of the accumulation, growth and distribution model which is to prevail in each of the subsystems have also been defined. In short, once a particular model of spatial operation has been shaped, certain limits are simultaneously defined which affect

¹¹Doreen Massey, "In what sense a regional problem?", in *Regional Studies*, Oxford, Pergamon Press, Vol. 13, No. 2, 1979, p. 235.

¹²Carlos Benetti, *op. cit.*, p. 85.

the content and possible scope of actions aimed at bringing about changes in different parts or subsystems of the national system: in other words, the prevailing model brings with it additional restrictions which demarcate the limits of the possible for actions of regional incidence.

This is why it is important, in each particular case, to grasp the fundamental features of the prevailing model of spatial operation it is desired to take action in terms of regional planning. In the case of the Latin American countries, just as it has been possible to characterize the various global models which have predominated in different stages of their historical evolution, it is likewise possible to try to identify, through its dominant features, the model of spatial operation corresponding to each of these stages. While recognizing the danger involved in trying to establish generally applicable models for the very diverse national situations coexisting in the Latin American sphere, it nevertheless seems reasonable, in the light of the available evidence, to sustain that there are certain salient features which, in general terms, have characterized the spatial development of a numerous group of countries.

This means accepting that throughout the process of formation of the Latin American national systems, the various alliances established between the social forces of each national entity have led to the definition and adoption of successive political projects which in essence, from a long-term viewpoint, have had considerable coherence and continuity as regards the spatial operation of the system. Thus, among these processes there are no examples of political projects of any substantial duration which have given rise to tendencies clearly opposed to the model which it is here sought to characterize. Obviously, examples can be cited of some political alliances which have temporarily imposed projects representing an interruption or break in the dynamics of the model of spatial operation, but once the conditions which permitted the application of these projects have disappeared, the subsequent projects have generally restored the coherence and continuity referred to; according to Villamil's theory,¹³ this corresponds to the expansion of a rising style of development which has

gradually transformed itself into the dominant style in national systems.

In the following pages, an attempt will be made to sketch the main lines of the model of spatial operation which has predominated up to now in most of the Latin American countries. The reader must be warned, however, that the possibility of generalizing these features to different national situations is conditional upon the fulfilment of at least the following two aspects. In the first place, the process of national articulation and integration based on the penetration and consolidation of the capitalist economy must have taken place in a relatively generalized manner in the country in question and must cover a substantial part of the national territory. It must be understood that in those countries which are still characterized by a relatively poorly articulated structure and by a significant degree of survival of pre-capitalist sectors, the model of spatial operation presented here has little validity. In the second place, there must have been a relatively substantial advance of the process of industrialization; this aspect is particularly relevant because the features in question are accentuated during the period in which industry leads to the appearance, expansion and deepening of industrial and financial capitalism. Bearing in mind these restrictions, the dominant aspects of the model of spatial operation which has predominated so far in most of the Latin American countries can be summed up as described in the following pages.

1. *Articulation of the national system around central subsystems*

Already during the era of colonial rule, certain cities began to stand out in the territories which were later to become some of the Latin American nations. These cities—whose dominant social groups in many cases played a fundamental role in the struggle for independence and the establishment of the respective countries as separate nations—rapidly increased

¹³José J. Villamil, "Concepto de estilos de desarrollo. Una aproximación", in O. Sunkel and N. Gligo (eds.), *Estilos de desarrollo y medio ambiente en América Latina*, Mexico City, Fondo de Cultura Económica, 1980.

their political and economic influence in the period of consolidation of nation-States and became the centres of the national system which was then in the process of formation. It was fundamentally through and on the basis of these cities that the process of dissemination of innovations was carried out, and it was consequently around them that the incipient national system began to be articulated; they initially constituted the base for the penetration and dissemination of the forms of the mercantile economy and subsequently of the social relations of production which led to the consolidation of the capitalist process of economic, political, social and territorial integration of each country.

From their origins up to the present, many of these cities carried out the basic functions of the systems which were gradually being articulated around them; thus, successively, and sometimes simultaneously, they were centres of colonial administration, national political power, the export-import process, services and commerce, and all this was gradually establishing the bases of their subsequent transformation into poles of attraction for the first industries.

When we look at the process of formation of the Latin American national systems, we note that in most cases the national urban structure was built up on the basis of a single main city (Mexico City, Guatemala City, San José, Caracas, Lima, Santiago, Asunción, Buenos Aires, Montevideo, etc.). In a few cases (Brazil, Colombia, Ecuador) more than one first-order urban centre has coexisted simultaneously at various periods in the process of formation of the national system; nevertheless, as the development of the industrially-based capitalist economy has progressed, the situation has tended to become more unbalanced as a result of the increase in the relative importance of a main city (the case of Bogotá) or a large industrial-urban axis (the case of São Paulo-Rio de Janeiro).

As a result of the economic and political processes taking place in them, the main cities have generally become more separated from the other components of the national urban structure, as may be seen fundamentally from the functions (administrative, commercial, ser-

vices, industrial) carried out by each of them¹⁴ and, ultimately, the spatial concentration of such activities and of the population. As we shall see below, the spatial concentration of the activities of the industrial and financial sectors is of fundamental importance because of its incidence on the definition of the forms of spatial operation of the system.

These processes of spatial demographic concentration may be seen from the evolution of the indexes of urban primacy, which have been growing for most of the countries during prolonged periods in the past and in the case of many nations are still increasing; moreover, these indexes have been higher for the Latin American countries than for other areas of the world.¹⁵ It may however be noted in this respect that in the case of some countries—most notably Brazil—even though there is evidence of the spatial concentration of urban functions and particularly of industry, there is nevertheless no evidence of a particularly marked demographic imbalance and growth of the indexes of urban primacy.¹⁶

The data from the most recent population censuses reveal that in various countries of the region “the regional indexes of concentration of urban population in the main cities have shown a moderate but sustained downward trend, although their levels are still very high”.¹⁷ At the same time, the figures from recent industrial surveys also indicate that in some countries the level of relative concentration of industry appears to have reached its peak, and from now on a slow process of relative deconcentration would appear likely to begin.¹⁸ Nevertheless, a report on the present

¹⁴For an analysis of the problems of functional primacy in Latin America, see Denis-Clair Lambert and Jean-Marie Martin, *América Latina. Economías y sociedades*, Madrid, Fondo de Cultura Económica, 1976, p. 193 *et seq.*

¹⁵Regarding this problem, see Fernando Gatica, “La urbanización en América Latina: aspectos espaciales y demográficos del crecimiento urbano y la concentración de la población”, in *Notas de población*, Santiago, Chile, Year III, Vol. 9, December 1975.

¹⁶Vilmar Faria, “O sistema urbano brasileiro: un resumo das características e tendências recentes”, in *Estudos CEBRAP*, São Paulo, No. 18, October-December 1976.

¹⁷CEPAL, *El estado de los asentamientos humanos en América Latina y el Caribe*, Mexico City, Edición SAHOP, 1979, p. 42.

¹⁸CELADE, *Desarrollo regional, políticas públicas*,

situation and future trends of human settlements in Latin America forecasts that "the tendencies towards population concentration and the notable predominance of the main cities over the national systems of human settlements will be maintained, and it is estimated that there will be between 150 and 180 million people living in the main metropolises by the year 2000, corresponding to half the urban population and almost one-third of the total population of the region".¹⁹

In this context, the advance of the processes of spatial concentration has caused the increase in activities and population to overflow the limits of the main city, leading to the formation of vast and complex central regions, in some cases also called principal regions, metropolitan regions or "core regions". Such regions are generally made up of a growing conurbation which acts as the nucleus for them, with a network of smaller urban centres and rural areas directly linked to this nucleus: these regions become *central subsystems* of the national system and act as the true motive centre of the latter. Thus, as from certain periods in the historical evolution of each country, the national spatial system has tended to be articulated around a central region or subsystem rather than a main city. In this situation, the process of spatial concentration takes place fundamentally in this subsystem, although not necessarily in the main city; thus, a reduction in the relative weight of the main city (in terms of location of productive activities or population) is generally accompanied by an increase in the relative weight of the central subsystem as a whole.

The articulation of the national systems on the basis of a nucleus made up of the central subsystem is a fact which is observed in all the countries, regardless of their geographical size, and it is even observed that the industrial and demographic weight of this subsystem with regard to the national system is usually similar. Thus, the subsystem which has arisen around Montevideo (including the cities which are

dependent on this centre in the Department of Canelones) or San José in Costa Rica (including the cities of Alajuela, Heredia and Cartago) have a relative weight from the industrial and demographic point of view which is very similar to that of the principal regions of Chile, Argentina and Mexico, for example.

2. *Spatial concentration of industrial, financial and service activities*

When each of the countries began its industrialization process, the main cities appeared to be the place offering the greatest advantages from the locational point of view. To start with, these centres offered the widest access to the domestic market, since they had the largest volume of population with a certain capacity for consumption in the national system, this population being made up of that which was concentrated in the main city itself, plus the population of its area of effective influence. In this respect, it should be borne in mind that, because of the way the territory had been organized, both during the era of the colonial economy and the stage when the primary export model predominated, the infrastructure and the transport and communication services generally converged on the central subsystem which was in the course of formation. Thus, the remaining centres of any importance were practically without any linkages with each other, since in almost all cases their links were with and through the main centre.

Moreover, it was the main cities which had the best endowment of infrastructure (energy, drinking water, transport, etc.) and the largest available contingent of concentrated labour. These factors meant that at that moment these cities offered greater capacity for absorbing investment than the other possible locations in the national space. It should also be remembered that it was these centres which were best equipped for cultural and recreational activities, and this powerfully influenced the subjective preferences of businessmen as regards selecting their place of residence.²⁰

migraciones y primacía urbana en América Latina: una investigación comparativa, Santiago, Chile, preliminary version, 1980.

¹⁹CEPAL, *op. cit.*, p. 45.

²⁰This factor is usually of more importance than first impressions would seem to indicate. In this respect, see Jean Zlatiev, "Enquêtes sur les éléments moteurs et les

Finally, it should be borne in mind that since most of these cities were the seat of national political power, location near them gave the agents involved in the production process better and more rapid access to discussions about economic policy decisions which might affect them, and this in itself constituted a factor of attraction for the new activities which were beginning to be developed in each country.

The confluence of these elements in a single environment is what gives the basis for Topalov's assertion that "as a spatialized system of elements, the city is a form of capitalist socialization of the forces of production".²¹ As a consequence of this, the city offers what the same author calls the *useful effects of agglomeration*, a concept which corresponds essentially to what regional economic theory has traditionally called "external economies of agglomeration".

When the process of industrialization began to gather force in the Latin American countries, the advantages of agglomeration were most evident in the larger cities, so that the industrial activities which grew up tended to be located preferentially and in their majority in these cities or their immediate area of influence, and this is equally true for the countries which began their industrialization process early (such as Mexico, Colombia, Argentina, Brazil, etc.) as those which began it later (Venezuela, Costa Rica, Peru, etc.).

The tendency towards the spatial concentration of manufacturing activities in the main cities persists throughout the industrialization process in each country and covers practically the whole range of activities of the sector: thus, this locational trend is to be observed from the stage when the first simple manufacturing activities were established, right up to the establishment of large-scale industry, although everything appears to indicate that it reaches its greatest intensity during the period of substitutive industrialization.

éléments freins de la décentralisation industrielle", in *Revue Economique*, Paris, Vol. XIX, No. 5, September 1968.

²¹Christian Topalov, *La urbanización capitalista. Algunos elementos para su análisis*, Mexico City, Editorial Edicol, 1979, p. 20.

This process of spatial concentration of industry has continued to prevail even in the case of activities of transnational origin, most of which have likewise been located in the central subsystems. In this respect, Paul Singer noted that "this [international monopoly capital] approaches locational decisions exactly like any other kind of capital, showing the same tendencies to superconcentration and displaying a similar possibility of being reoriented through suitable government incentives".²²

Consequently, as the process of industrial concentration went on, the central subsystems also became the natural location for most of the industrial structures of an oligopolistic or monopolistic nature, with the result that these centres not only became the seat of the largest number of industries, but also of the largest industries. Thus, economic concentration and territorial concentration have tended to strengthen each other mutually.

In turn, the development of industry in the large urban centres, through the processes of vertical and horizontal transmission of externalities, itself brought about the generation and expansion of new productive activities, especially in the trade and services sectors. Thus, the growth of the industrial sector led—through the increased amount of profits and wages and salaries—to an increase in the volume of disposable personal income in the main centres, and this, together with the population growth in these areas, led to a steady and significant expansion in the market, which in turn promoted the expansion and diversification of tertiary sector activities. The multiplication of these activities likewise contributed to the expansion of the market in the centre, thus giving still greater impulse to the expansion of these activities. All this reinforced the relative weight of the productive structure of the main centres in comparison to that of the remaining urban areas of each country.

Furthermore, the advance of the industrialization process supported and promoted a steady expansion of the financial system, which assumed an increasingly important function in the growth and reproduction of the system as a

²²Paul Singer, *Economía política da urbanização*, São Paulo, Editora Brasiliense, 1973, p. 76.

whole. The activities of the financial sector tended to establish their base of operations in physical proximity to the main mass of the national production apparatus, since it was there that it found the economic basis necessary for the development of its activities, and this fact too contributed significantly to the strengthening of the tendencies towards spatial concentration. This is clearly illustrated by the empirical evidence available, which indicates that the financial sector has reached indexes of spatial concentration even higher than those corresponding to other sectors of activity, both as regards the location of the fixed assets of the sector and the movements of its financial flows.

To this should be added, as a feature of fundamental importance regarding this sector, its marked centralization as regards decision-making; in this respect, Lambert and Martin have even gone so far as to say that "... this primacy is based essentially on the centralization of the financial circuits and the organization of bank circuits".²³ Thus, even though in the most recent and advanced stages of development of some countries of the region a certain degree of territorial redeployment of industry has begun to be glimpsed, it can nevertheless be asserted that this in no way changes the spatial centralization of the financial machinery at the management level, which takes place as a function of the dominant interests in the central subsystem.

As a result of the processes described above, it may be asserted that the central subsystem becomes on the one hand the main area of accumulation of installed technology and, on the other, the rallying place and centre of operations of the entities responsible for the effective management of the financing of the process of accumulation; it therefore seems justified to claim that from the spatial point of view each central subsystem constitutes the *main centre of accumulation of the system*. Other aspects which help to show more clearly how the process of accumulation of capital has been becoming more spatially centralized and concentrated will be analysed later.

²³D-C. Lambert and J-M. Martin, *op. cit.*, p. 193.

3. *Strengthening of territorial concentration through the action of the State*

Special consideration must be given to the action of the State, which has played a fundamental role in generating conditions for the strengthening and expansion of the main centres of accumulation of each national space. In discussing this aspect it seems desirable to bear in mind from the very beginning David Dunham's warning that "... much of the literature on 'regional development' and 'regional planning' seems to have been written on the implicit assumption that the State acts as the guardian of 'the public interest' rather than as the representative of the most powerful interests in the national society (including its own)".²⁴ If it is accepted that the State cannot be considered as a neutral entity in the interplay of the various social forces, then in the particular case under consideration it will be important to try to outline the origin of the dominant pressures during the period studied.

In this respect, the most important feature is the emergence onto the political scene of the urban social groups, resulting from the advance in the processes of urbanization and industrialization. These groups gradually acquired increasing weight in the alliances sustaining many of the political projects promoted by nation-States, especially during the period of substitutive industrialization.²⁵ This presence of the urban social forces in political life has had a clear incidence through the fact that many of the policies adopted have led explicitly or implicitly to the strengthening of the main centres of accumulation and their transformation into the veritable motive forces of the economic functioning of each national system.

Although the socio-political analysis of these processes is beyond the scope of the present article, it does seem important at least to make a brief reference to the main reasons why the action of the State has tended up to now to support the growth of spatial concentration in the Latin American countries. In brief,

²⁴David Dunham, *op. cit.*, p. 227.

²⁵In this respect, see in particular Fernando Henrique Cardoso and Enzo Faletto, *Dependencia y desarrollo en América Latina*, Mexico City, Siglo XXI Editores, 1969.

the position maintained here is that the action of the State has effectively responded to concrete political pressures exercised on behalf of the central subsystems. There are various reasons for this behaviour: to begin with, the most powerful national and international economic groups—which have mostly had their principal base of operations in the central subsystems—have exercised persistent pressure to ensure that the actions of the State favours the development of the activities located there, which, as from a certain period in the development of each country, have become the fundamental activities of the process of accumulation. Furthermore, the central subsystems are the place of residence of the largest relative concentrations of population, to whose political weight the State has not of course remained indifferent; these concentrations, too, have exercised persistent pressure for an increase in the public expending and investment needed to improve or maintain the functioning of the environment in which they live and carry on their activities, so that this has continued to be an attractive place to locate new activities. Finally, considerable weight has been exerted also by the fact that the central subsystems are the location of the greatest volume of the most directly or indirectly dynamic activities of each national system, whose growth the State seeks to maintain, and in order to be able to preserve the high levels of efficiency of these activities—which also means maintaining the growth rate of the system as whole—it has constantly been necessary to make additional investments in infrastructure and services.

In these conditions, the action of the State has constantly tended to favour this part of the system to the detriment of the remaining parts; this has mainly been achieved through the allocation of a high percentage of State resources to cover current expenditure and investments favouring the centres of accumulation, either in order to generate additional infrastructure, to absorb diseconomies of agglomeration, or to cover high maintenance and operating costs.

The persistence of this process of spatial concentration of the most important activities of the financial accumulation, industrial and services sectors in the central subsystems necessarily led to an increase in the political

power of the social groups connected with these, and this meant an increase in the political power of the subsystems, resulting in the fact that a good proportion of the most important policy decisions have tended to strengthen, either directly or indirectly, the power structure located there, to the detriment of activities located in other parts of the territory. This increase in the political weight of the central subsystems forms the foundation of many of the theses of internal colonialism.²⁶

At the same time, the most backward regions, which are characterized by having a weak economic structure, have been the location of economically weak sectors and hence of social forces with little political power, so that their bargaining capacity has also been very limited. Consequently, public actions have very rarely been really designed to favour these regions, and it is hard to believe that the mere play of the market forces can bring them out of their depressed situation.

The problems brought about by excessive concentration have led some Latin American governments to take measures designed, at least apparently, to modify the pattern of spatial operation of the system. Such measures have generally been designed, however, to achieve a greater interiorization of the production process (this is what was sought, for example, through the construction of Brasilia and Ciudad Guayana), or else greater national integration (through ambitious programmes of construction of transport infrastructure), so that the results do not so far seem to have succeeded in bringing about any significant changes in the model of spatial operations; indeed, many of these actions seem to have led rather to its strengthening and expansion. Nor have attempts to achieve other objectives, such as industrial deconcentration through the establishment of industrial parks or new poles of growth, registered any results which point to significant changes in the dominant features of the model.

Even so, because of the growing acuteness

²⁶On internal colonialism, with special reference to the case of Brazil, see in particular Yves Chalout, *Estado, acumulação e colonialismo interno*, Petropolis, Editora Vozes, 1978.

of the contradictions and problems caused by excessive spatial concentration,²⁷ there can be no doubt that in the next few years many governments are bound to intensify their policies aimed at stimulating spatial deconcentration, and some concrete results may possibly be achieved in this direction.

4. *Convergence in the spatial shifts of the labour force*

The process of expansion and consolidation of the national system, which implies the propagation of capitalist social relations of production to the rural environment, has meant the introduction of new forms of social organization of labour in agricultural activities, and one of the most outstanding effects of this process has been the expulsion of substantial contingents of rural labour to urban areas, giving rise to an explosive intensification in the internal migration observed in recent decades.

The expulsion of rural workers is essentially in response to two kinds of causes.²⁸

(a) Firstly, the incorporation of extensive areas of the rural environment into the new forms of social organization of labour and production, which has had at least two important effects: on the one hand it has meant the introduction of changes in production techniques, making them more capital-intensive, so that there has been a gradual reduction in the number of rural wage-earners required for each unit of production; and on the other hand, it has brought about an increase in the size of the properties of capitalist enterprises, with consequent displacement of the former producers and peasants to other activities.

(b) Secondly, peasant agriculture, which is predominantly for subsistence purposes and has its own specific forms of social organization, with little or no generation of economic surplus,²⁹ has been unable —because it lacks

the conditions for raising its productivity— to retain the whole of the population increase generated there.

The population contingent expelled from rural areas has gone mainly to the cities, and especially to the central subsystems, which for a long time past have exerted a much greater attraction than the small or medium-sized cities. As a result of these population movements, the subsystems have had at their disposal large contingents of labour which, as they exceed the demand for workers by urban activities, have led to a persistent increase in structural unemployment and underemployment, and this imbalance in the labour market has made it possible to perpetuate a situation of low wage levels in the main centres of accumulation. Both the abundant availability of labour and the maintenance of low wages have become additional factors helping to ensure the continuity of the process of location of new activities in the central subsystems.

When we consider that one of the factors which has had the greatest influence at the international level in promoting the redeployment of industry from the centre to the periphery has been the possibility of reducing production costs through the existence in the periphery of abundant labour available at low wages, it may be asserted that in the present circumstances it is difficult to see how any tendency towards territorial dispersion within the Latin American countries could be brought about by the factors in question. The fact that a certain amount of territorial redeployment of industry may be taking place in some countries —especially those of largest geographical size— would seem to be connected mainly with the rise of markets of some importance in certain peripheral areas of those countries.

5. *Territorial differences in productivity, efficiency and profitability*

The continual increase in the population and production activities of the main urban centres and the subsystems which have grown up around them have had as their consequence a steady expansion of their markets, which has in turn created favourable conditions for the expansion of the scales of production of the activ-

²⁷On the problems caused by processes of spatial concentration, see Carlos A. de Mattos, "Crecimiento y concentración espacial en América Latina: algunas consecuencias", in *Revista Interamericana de Planificación*, Mexico City, Vol. XV, No. 57, March 1981.

²⁸See Paul Singer, *op. cit.*, p. 31 *et seq.*

²⁹Alexander Schejtman, "The peasant economy: internal logic, articulation and persistence", in *CEPAL Review*, Santiago, Chile, No. 11, August 1980.

ities located there, and this, in turn, has brought about an uninterrupted process of incorporation of technical progress. As a result of this, the largest centres have been characterized by their possession of plants of larger scale and by their incorporation of technical progress in a manner which has no parallel in the industries located in smaller centres; moreover, they enjoy a greater availability of infrastructure, energy, skilled labour, etc. All this has established favourable conditions for a higher level of development of the forces of production in the central subsystems than in the peripheral areas. Consequently, the activities located in the central subsystems have been characterized by a higher productivity of labour than the smaller centres,³⁰ all of which has resulted in a higher degree of efficiency of their respective production processes.

Various empirical studies available for different countries of the region give grounds for asserting that the form of behaviour sketched above is generally valid for those countries whose industrial sector has grown to relatively substantial dimensions. This is clearly shown, in particular, by the indexes of labour productivity and industrial efficiency calculated for urban centres of different sizes. For the specific case of efficiency, for example, an important study by E. Hernández Laos on Mexico which is based on a calculation of indexes of industrial efficiency for the various federal States of that country showed that "... the indexes of efficiency are systematically correlated in almost all industries with the differences which exist in the conditions of infrastructure, education and training of labour, degree of industrial diversification, size of markets, and availability of credit and energy".³¹ Taking into account the fact that it is the central regions which are best endowed in this respect, the author arrived at the following significant conclusion: "...the fi-

nal result is that these regions enjoy 'locational advantages of efficiency' which favour the expansion of the firms already located there and the attraction of new ones".³²

In general terms, the force of the factors mentioned above (scales of production, incorporation of technical progress, external economies of agglomeration, productivity of labour, economic efficiency) mean that the central subsystems are perceived by the agents who take decisions on the utilization of the economic surplus as the places in the national space which offer the prospect of the greatest profitability in the medium and long term. This fact—in a type of economic system where the spatial and sectoral utilization of the surplus is governed basically by the laws of the market—has become one of the most vital points in the system, because, as Singer notes: "...since the capitalist enterprise is a free agent as regards decisions on location, it takes these as a function of the market stimuli and the subjective preferences of its managers. Both circumstances lead to the concentration of activities in metropolitan areas".³³

The perception which private entrepreneurs have of the differences in profitability between different parts of the territory is accentuated by the fact that the negative effects and costs deriving from the congestion in the large urban concentrations are not transferred directly to the enterprises, but are absorbed by the economy as a whole: that is to say, the private costs are different from the social costs. In the above-mentioned study on the process of spatial concentration in Mexico, E. Hernández Laos comes to the following important conclusion in this respect: "...if the private gains derived from economies of scale and external economies are greater than the negative effects directly caused to the firms by external diseconomies, *the process of industrial expansion of the industrialized regions will tend to be accumulative and expansive, as seems to be the case in Mexican manufacturing*".³⁴

Ultimately, these factors lead to a dif-

³⁰For a study on the differences in productivity in centres of different sizes, with reference to the case of Brazil, see Hamilton C. Tolosa, "Macroeconomía da urbanização brasileira", in *Pesquisa e Planejamento Econômico*, Rio de Janeiro, Vol. 3, No. 3, October 1973.

³¹Enrique Hernández Laos, "Economías externas y el proceso de concentración regional de la industria en México", in *El Trimestre Económico*, Mexico City, Vol. XLVII (1), No. 185, January-March 1980, p. 129.

³²Enrique Hernández Laos, *op. cit.*, pp. 133-134.

³³Paul Singer, *op. cit.*, p. 74.

³⁴Enrique Hernández Laos, *op. cit.*, pp. 135-136 (author's italics).

ferentiated form of behaviour as regards the territorial use of the surplus, and it is in this differentiated behaviour that we may find the origin of the acute regional inequalities which have characterized the process of spatial formation in the Latin American countries. In this respect, Doreen Massey notes that the inequalities stem essentially from a particular area's "degree of attractiveness to, and suitability for economic activity. At any point in time, in other words, there is a given unequal geographical distribution of the conditions necessary for profitable, and competitive, production".³⁵ It is this unequal geographical distribution of the degree of attractiveness to and suitability for the dominant economic activity which has essentially led to the fact that the new activities generated by private enterprises have tended to continue to be located in the central subsystems, thus bringing about the sequences of an accumulative nature which have given rise to the formation of the great concentrations now characterizing the spatial structure of most of the Latin American countries.

6. *Predominant use of the surplus for the benefit of the central subsystems*

Another of the fundamental features of the predominant model of spatial operation is its tendency towards the territorial concentration of the process of capital accumulation in the central subsystems; essentially, this represents a process of appropriation of the surplus generated in the peripheral regions and its use in accordance with the dominant interests of the central subsystems.³⁶

³⁵Doreen Massey, *op. cit.*, p. 234.

³⁶In analysing this process we have deliberately refrained from dealing with the aspects relating to the transfer to the exterior of the surplus generated in peripheral economies, although it is of course recognized that this is one of the most important phenomena affecting the growth of the latter. Although in the present article it has been borne in mind that the growth model adopted by each country has been conditioned by the specific form of articulation of the national economy with the dominant centre at the international level, the analysis has been centered exclusively on the effects which this had on the internal spatial operation of each national system. Consequently, the statements made here apply essentially to the process of generation, appropriation and territorial utilization of that part of the surplus which is retained within the respective national economy.

Within each national economy, the extraction of the surplus takes place through various mechanisms, among which it is worth singling out on the one hand those which permit its direct extraction and, on the other hand, those which operate through trade exchanges. In turn, as regards the direct extraction of the surplus a distinction should be drawn between that which takes place through private sector mechanisms and that carried out in the sphere of the State.

As regards the mechanisms operating within the private sector, special mention may be made of those which operate on the basis of the differences in profitability enjoyed by the agents between the central regions and the peripheral regions, that is to say, the differences in terms of the "conditions for profitable and competitive production" referred to by Doreen Massey. This situation has led to a constant transfer of the economic surplus to the central subsystem, fundamentally through bank circuits and other financial sector mechanisms, which have steadily expanded and become more perfected for the proper fulfilment of this function. All this has given rise to a greater accumulation of capital in the central subsystem than in any other region of the national space.

Although that part of the surplus extracted from the peripheral regions which remains in the country is mostly used in the central subsystem, there always remains another part which is directed towards certain high-profit activities in other subsystems, whose growth helps to speed up the process of accumulation of the economy as a whole, with the ultimate result, through the operation of the mechanisms already described, that this works in favour of the expansion of the central subsystem. In a study on the regional processes in Brazil, Paulo Haddad gives the following analysis which exemplifies and corroborates the foregoing assertion in this respect: "...the dominant centre —through investments in the transport and communications of the periphery— builds up relations of domination which are characteristic of internal colonialism. In areas endowed with abundant natural resources, big agroindustrial and mining projects are set up, financed and controlled by the pri-

vate capital of companies located in the centre, with the objective of generating at low cost an exportable surplus of raw materials and foodstuffs needed to sustain the industrialization process in other regions of the country or solve acute balance-of-payments problems".³⁷

The State, for its part, also appropriates part of the surplus generated in the various areas of the country, but—under the influence of pressure from the factors already analysed earlier—this is used above all in the central region itself: obviously, some of the surplus appropriated by the State is also used in peripheral regions, but even in this case it tends to benefit the dominant groups of the central subsystems rather than the peripheral regions themselves. This is so, for example, in the case of investments in infrastructure which are ostensibly carried out with the aim of achieving greater national integration but which, in general, primarily make possible an expansion of the market for manufactures coming from the central subsystem. Furthermore, this expansion acts to the detriment of the local manufactures of the other regions, since because they work at lower productivity, and hence with higher production costs than the companies in the central region, they cannot continue competing with their products.

In addition, it must be borne in mind that the factors inducing the transfer of the surplus from the peripheral subsystems to the centre also influence the selection of the predominant place of use of the surplus generated in the central subsystem itself. In this respect, it may be noted that while in their initial stages the central subsystems needed the surplus of the primary export sector in order to establish and consolidate themselves, in more advanced stages a broad and diversified production structure grew up in them which came to contribute an increasingly large part of the total surplus of the country, and the part of this which is retained by the national system has tended to be oriented largely towards the activities of the central subsystems themselves, in the light of

the territorial differences in profitability already referred to.

At the same time, the increase in production of the centre has given rise to another mechanism for appropriating the surplus generated in the peripheral regions: as the productive activities of the central subsystem were expanding, diversifying and increasing their productivity, interregional trade was also growing, with the simultaneous decline in the manufacturing activities of the peripheral regions already referred to. In view of the differences in productivity between the activities of the central subsystems and those of the other subsystems, this trade between regions has formed the basis for a transfer of the surplus to the central subsystem. A good example in this respect is that of Brazil, where a recent study on the case of São Paulo notes: "The fact that São Paulo is the leading centre of the process of accumulation in Brazil leads to the relative impoverishment of other regions of the country. In addition to the direct transfer of resources or investment, another source of concentration is provided by the privileged position of the São Paulo economy in the regional division of labour. As the most advanced sectors of industrial and agricultural production are concentrated in the São Paulo area, the productivity of its enterprises is also greater, giving it an advantage in trade relations with other regions".³⁸

If we accept Laclau's assertion that "...economic dependence means the permanent absorption of the economic surplus of another region",³⁹ then in the conceptual framework just set forth it would be possible to speak of dependent regions and dominant regions, while at the same time it would be necessary to accept that the relations linking the elements of the system have the character of domination and dependence, respectively. This is the fundamental significance of the concepts of dominant regions and dependent regions.⁴⁰

³⁸Candido P. Ferreira de Camargo *et al.*, São Paulo 1975. *Crescimento e pobreza*, São Paulo, Edições Loyola, 1976, p. 16.

³⁹Ernesto Laclau, *op. cit.*, pp. 138-139.

⁴⁰Obviously, this does not mean to say that one region as such dominates another region, but that particular social groups residing in a region of greater capitalist development appropriate a significant part of the surplus generated in regions of less advanced capitalist development.

³⁷Paulo Roberto Haddad, "Brasil: la eficiencia económica y la desintegración de las regiones periféricas", in Sergio Boisier *et al.*, (eds.), *op. cit.*, p. 372.

The above aspects form the essence of the mechanisms which have served so far to bring about the self-perpetuation of the processes of spatial concentration and unequal growth which have predominated in most of the Latin American countries; fundamentally, these are phenomena with similar characteristics to what Myrdal⁴¹ describes as cumulative processes of circular causation.

While these processes have been generating contradictions, it should be observed that so far these contradictions have not reached the point of cancelling out the advantages of spatial concentration, and that moreover the system as a whole seems to have found mechanisms which have enabled it to overcome such contradictions. This is so, for example, in the case of the problem raised by the reversal of sign of the advantages of agglomeration as a result of the incessant growth of some great metropolitan centres; in most of these cases, the solution has been sought through increasing the resources assigned by the State to these centres so as to keep them operating, even though this has to be done to the detriment to the needs of the peripheral subsystems.

On the basis of the evidence provided by the features of the model sketched earlier, we can now, by way of summing up, try to complement what has been said on the aspects which permit us to define the central subsystems as principal centres of accumulation within each national space. These aspects are summed up by the fact that each central system develops into:

- (i) the place where the qualitatively and quantitatively most important part of the stock of productive capital of the system—that is to say, the greatest volume of installed technology—is located;
- (ii) the place where gradually increasing volumes of the national economic surplus are generated;
- (iii) the place where substantial volumes of the surplus generated in the other subsystems are appropriated; in this respect, it could be said that they constitute the greatest centres

of supply of financing for productive accumulation;

(iv) the place where most of the agents who take decisions on the use of the surplus available in each national space live, and hence, the place where such a national space is operated and 'manipulated'.

7. Persistence of unequal spatial growth

It may be inferred from the foregoing that the dynamic peculiar to this model of spatial operation has led to the shaping of a structure characterized by an extremely unequal territorial distribution of productive forces and an equally uneven development of them in the various areas of each country, while these features have also become factors which ensure the reproduction of this same structure and hence the persistence of the process of unequal growth.

In their most concrete expression, these disparities are manifested in the substantive differences in living conditions which affect the inhabitants of the different regions. Many investigations made in respect of various Latin American countries show that as the process of concentration has advanced, the inequality in the territorial distribution of both wealth and poverty has steadily become more acute. This is so because on the one hand the richest strata have tended to become concentrated primarily in the central subsystem, while on the other hand the highest percentages of poverty affect the regions or areas of the periphery; furthermore, there is evidence which gives grounds for asserting that the poor in the poor regions are generally poorer than their opposite numbers in the central subsystems.

As regards the territorial distribution of poverty, we may take as an example the case of Peru, where the results of a survey carried out in 1971-1972 show that whereas in Metropolitan Lima the families in a situation of extreme poverty amounted to 6.3% of the total number of families in the area, in the rest of the urban centres the respective proportion came to 24.5%, while in rural areas it was 50%.⁴² Like-

⁴¹Gunnar Myrdal, *Economic Theory and Under-developed Regions*, London, Duckworth, 1957.

⁴²Alberto Couriel, *Estado. Estrategias de desarrollo y satisfacción de necesidades básicas: el caso de Perú*, Santiago, Chile, ILPES, 1978 (mimeo).

wise, an investigation on regional disparities being carried out by ILPES has revealed a similar situation in Panama and Venezuela.⁴³

The conclusions of the research on urban poverty carried out in respect of Brazil by Hamilton Tolosa must be interpreted in the same way: this author found that "...the cities can be clearly grouped according to a regional criterion. Thus, at one extreme are the poorest cities, headed by Juazeiro do Norte, Parnaíba and Mossoró, followed by other highly concentrated centres in the Northeast. At the other extreme are the cities in central São Paulo and the metropolitan areas of the southern region"⁴⁴ These results show that regional inequalities persist even when only the urban population is considered.

All this indicates that the conditions of well-being and survival prevailing in the central subsystems are superior to those of most of the peripheral regions. Furthermore, from the aspects considered in the preceding pages it may be inferred that as long as this model of spatial operation continues in force, there are no solid grounds for expecting any significant reduction in the regional disparities now existing, regardless of the growth rate which may be reached by the economy as a whole.

It should be noted in this respect that some cases of modest reductions in regional disparities claimed to be revealed by measurements carried out in certain countries of the region do not seem to be attributable to greater relative growth of the income of the peripheral regions so much as to a short-term reduction in the growth rate of income in the central regions. In a study on the recent evolution of the disparities in regional income in Brazil, Redwood puts forward the following hypothesis to explain the reductions in such disparities observed in that country in the period after 1960:

⁴³Arturo León, *Dimensión territorial de las disparidades sociales. El caso de Panamá*, Santiago, Chile, ILPES, 1982 (mimeo).

⁴⁴Hamilton C. Tolosa, "Dimensões e causas da pobreza urbana", in Werner Baer et al. (eds.), *Dimensões do desenvolvimento brasileiro*, Rio de Janeiro, Editora Campus, 1978, p. 159.

"the evolution in regional inequalities, and more specifically, in the relation between the levels of the product in São Paulo and in the Northeast, is largely due to economic phenomena which affected the growth rate of the product in the higher-income State rather than the spread of growth to the poorer areas on the periphery"⁴⁵ To this must be added the important warning given by Gilbert and Goodman that "...the regional convergence in income may be associated with very small improvements (or even a decline) in the incomes of the poorest groups in society and a deterioration in income distribution in the poorest regions"⁴⁶

Indeed, the model characterized through some of its most outstanding features earlier in this article is based on a scheme of territorial division of labour in which each territorial unit, within certain limits, has been assigned a specific function and, ultimately, its own particular model of accumulation, growth and distribution. In this context, as Melchior pointed out, "...the problems characterizing the underdevelopment of a subspace must be considered... as functional to the operating requirements of the system as a whole"⁴⁷

If this is so, then any attempt at action from the top down or from the bottom up must necessarily take into account the specific and concrete restrictions imposed by the prevailing model of spatial operation; if it is desired to make changes in the accumulation model of a particular subnational unit but these are not compatible with the spatial dynamics of the system, it can easily be foreseen that it is highly improbable that such changes can really be put into effect.

⁴⁵John Redwood III, "Evolução recente das disparidades de renda regional no Brasil", in *Pesquisa e Planejamento Econômico*, Rio de Janeiro, Vol. 7, No. 3, December 1977, p. 526.

⁴⁶Alan G. Gilbert and David E. Goodman, "Desigualdades regionales de ingreso y desarrollo económico: un enfoque crítico", in *EURE*, Santiago, Chile, Vol. V, No. 13, June 1976, p. 98.

⁴⁷Enrique Melchior, *Notas sobre la planificación a nivel subnacional en el marco de la planificación nacional*, Santiago, Chile, ILPES, 1980, p. 3 (mimeo).

IV

The area of the possible in regional planning

1. *The conditions and restrictions affecting regional action*

On the basis of the evidence considered so far, a more detailed analysis can be attempted of the consequences which these aspects could have for regional planning in both its inter- and intra-regional aspects. In this respect, we could begin by asserting that essentially every definite action aimed at bringing about certain desired changes in the spatial structure of a particular system must necessarily come within a specific *area of viability* whose limits are defined by the *conditions* and *restrictions* imposed firstly by the dominant rationale of the national system in question, and secondly by the model of spatial operation deriving from the prevailing political project.

The first-mentioned aspect refers to the fact that the rule deriving from the dominant rationale of the system delimit the nature, content and possible scope of social action, so that they act as concrete conditions and restrictions with respect to planning; this is the same as saying that they establish the most rigid and general limits defining the area of the possible in terms of planning.

It is easy to understand why this is so, because in fact these rules constitute the elements which define the type of system in which one is operating and therefore form a datum for the problem of planning: that is to say, when planning in a capitalist economy, the elements inherent in this type of system cannot be changed in essence through planning. A similar analogy can also be made when considering the problems of planning in a socialist economy, whose specific dominant rationale defines the limits for action. Although this type of assertion may seem obvious, this has not always been understood in the field of planning, where proposals have often been made for changes in the prevailing rules which ultimately involve flying in the face of the indications dictated by the rationale of the system.

The second aspect referred to is founded on the basic assumption that when the agents controlling the decision-making process adopt and decide to implement a particular political project, the accumulation model inherent in this involves a particular mode of spatial operation. When tackling a process of regional planning, regardless of whether this is undertaken from above or from below, it must be borne in mind that each of the parts of the national system (region, State, province) is affected by the dynamic of spatial operation, since this involves the system as a whole and, ultimately, to a greater or lesser extent each of the subsystems which make it up. In this context, the process of accumulation, growth and distribution in each subsystem takes place (within certain limits) in accordance with the role which explicitly or implicitly corresponds to it in the scheme of spatial division of labour deriving from the global accumulation model. Consequently, as long as the prevailing political project is not modified, the conditions and also the possibilities deriving from it must be taken into account.

On the basis of these considerations, it seems reasonable to assert that the modest results obtained by regional planning in the Latin American countries are basically due to the fact that the objectives and actions pursued in the plans were generally not compatible with the model of spatial operation supported by the prevailing political project; as a consequence, the proposed action could not, and indeed never did, arrive at the stage of effective execution. Finally, this type of procedure seems to ignore the fact that, as Dunham notes, "planning is by its very nature a reformist type of activity and must be in line with the prevailing power if it is to have success".⁴⁸

Nevertheless, we frequently find it asserted that the ineffectiveness of regional planning is due largely to faults in the theoretic-

⁴⁸David Dunham, *op. cit.*, p. 228.

cal foundations available: that is to say, it is maintained that the available knowledge on spatial processes does not give an adequate explicative basis on the origin and development of regional problems and does not provide appropriate normative elements for action. Although it must be accepted that the theoretical and ideological controversy on the nature of regional problems is still very strong and that we do not yet have a completely perfect regional theory, this does not mean that we must infer from this that the knowledge on which the practice of planning has to be based is useless; on the contrary, a review of the body of theory existing at present gives grounds for asserting that the knowledge available is reasonably satisfactory for explaining the origins of the main regional problems and suggesting the most suitable action for achieving, in given conditions, desired changes in the spatial dimension.

In reality, as already noted, the alleged failure of regional planning is due to the fact that in most cases the objectives pursued by the respective plans have not been compatible with the prevailing political project nor, consequently, with the corresponding model of spatial operation. When it has subsequently been sought to make an appraisal of the results obtained, the judgements have been based essentially on the fact that no significant success was achieved in terms of reducing regional disparities or lessening the process of territorial concentration. It is difficult to accept, however, that this should be attributed to weaknesses in the theories, since in order to achieve such objectives it would be necessary to 'implement' action oriented in a different direction from that corresponding to the dynamic of the predominant model of spatial operation: the fulfilment of such objectives would in fact have meant nothing less than the adoption of a global accumulation model different from that supporting the form of spatial operation in question, and this a problem which lies clearly in the area of political decisions and not that of theories.

2. *Conditions and restrictions in the Latin American experience of regional action*

Through the foregoing considerations we have

tried to come closer to the identification of the main conditions and restrictions limiting the area of the possible for actions of regional incidence; it is now necessary for us to examine this theoretical approach in contrast with what is to be observed in the concrete practice of planning in Latin America. For this, it is necessary to bear in mind that regional planning, understood as a deliberate effort to modify the spatial structure of a national system, must be conceived as a subprocess of the national planning process; this means that it is necessary to consider regional planning as part of a single action process.

As already noted, in actual fact most of the attempts made to incorporate the spatial dimension in national plans have had the explicit aim of securing a more equitable territorial distribution of the forces of production, generally together with the objective of achieving a reduction in regional disparities in income. This being so, then one may ask what happened as regards the action proposed for the achievement of these objectives. In this respect, a rapid review of the process of execution of plans reveals that:

(a) Generally, the global and sectoral objectives pursued by the plans or strategies have not been compatible with the regional objectives often explicitly stated at the same time; in a perhaps oversimplified manner, it could be said that the former were essentially objectives of efficiency and growth, whereas the latter were generally objectives connected with distribution and development;

(b) It has above all been the policies deriving from global and sectoral objectives which have effectively been carried out during the corresponding planning periods; to use the words of Helmsing and Uribe-Echevarría "the national objectives more coherently reflected the objectives of the dominant interests of the groups holding power and were hence more functional under the prevailing 'style of development'";⁴⁹

(c) These policies produced results which were different from —and even frequently op-

⁴⁹Bert H. J. Helmsing and Francisco Uribe-Echevarría, "La planificación regional en América Latina, ¿teoría o práctica?", in S. Boisier *et al.*, *op. cit.*, p. 75.

posed to— the explicit regional objectives referred to earlier. This means that the application of the policies dictated by the global and sectoral objectives implicitly contained other regional objectives, and it was these which were really achieved; when considering the Brazilian experience of regional planning, Nilson Holanda's views coincide with the content of this assertion and eloquently set forth its implications when he says that "in reality there is a very marked contradiction between the declared and explicit objectives of economic policy and the implicit and concealed priorities, or between what we might call *vocal or semantic priorities* and *real or effective priorities*";⁵⁰

(d) In most cases, the implicit regional objectives and policies are really consistent with the predominant model of spatial operation; this, rather than changing it, they help to strengthen the past spatial behaviour of the system.

This review of the results of actual processes gives grounds for concluding that the conditions and restrictions identified above have indeed had a decisive influence in defining the objectives and respective actions of the processes which have taken place in the recent past; in other words, the style of development adopted has been coherent with the predominant model of spatial operation and has been functional to its reproduction.⁵¹

All this backs up the conclusion that it is very difficult to see how the results obtained could have been different from those mentioned in view of the economic, social and political conditions predominating in most of the countries of the region; in this respect, Hil-

horst's conclusion that "...national regional development strategies probably do not have a social content until a style of development is selected which also has as its objective income redistribution among persons and a change in inter-human relations, viewed as real political problems" seems correct.⁵²

3. Conclusions regarding possible regional planning

From all the foregoing it can be seen that the central thesis of this article is that the dominant rationale of the system, on the one hand, and the content of the prevailing political project, on the other, establish the limits of the possible for social action in every concrete situation, and consequently also for the work and proposals of planners effectively acting as such. In the final analysis, in order for action proposals to go beyond the level of the merely declamatory, they must necessarily be located within the area defined by these limits.

These conclusions may give rise to queries such as the following: Up to what point is planning possible in a capitalist economy? What is possible in the field of planning in such conditions? Do the preceding assertions mean that there is a kind of straitjacket which rules out the possibility of really profound changes?

In order to sketch a reply to these queries it is necessary first of all to point out that in capitalist economies it is not only *possible* to plan but absolutely *essential* to do so, since the growing complexity of the system and the magnitude of the problems being generated with the expansion of capitalism and growth make it necessary to rationalize the process of decision-making as a function of the political project adopted, in line with a precise action strategy; it must also be borne in mind, however, that we must always approach capitalist planning with the aim of implementing a political project supported by the dominant power structure.

All this means that as long as there are no changes in the objective conditions peculiar to each concrete situation, the actions which have real possibilities of being put into effect are

⁵⁰Nilson Holanda, *Desenvolvimento e planejamento regional no Brasil*, Brasilia, First Latin American Seminar on Regional and State Planning, November-December 1981, pp. 68-69.

⁵¹Some recent studies on regional planning experiences in Latin America provide evidence which coincides with this view of the problem. See in particular: Jos Hilhorst, "Estilos de desarrollo y estrategias nacionales de desarrollo regional" and Bert Helmsing and Francisco Uribe-Echevarría, "La planificación regional en América Latina, ¿teoría o práctica?", both in Sergio Boisier *et al.*, (eds.), *op. cit.*; Jorge Jatobá *et al.*, *op. cit.*; Luis Unikel, "Políticas de desarrollo regional en México", in *Demografía y Economía*, Mexico City, Vol. VI (26), No. 2, 1975; Sergio Boisier, *Política económica, organización social y desarrollo regional*, Santiago, Chile, ILPES, 1982.

⁵²Jos Hilhorst, *op. cit.*, p. 118.

those which fit within the limits established by the conditions and restrictions already referred to. As Cardoso and Faletto point out: "...insofar as the system of social relations is expressed through a system of power, it historically establishes a set of structural possibilities which are peculiar to it. Within the framework of these structural possibilities, which are the consequence of previous social practices, certain trajectories are clearly traced, while other alternatives are ruled out".⁵³ Nevertheless, as these authors also point out, this does not imply a determinist mechanism which rules out the possibility of social action, and particularly planning. There are fundamentally two reasons for this assertion:

Firstly, because within the area of viability there are margins which permit various action alternatives, since a political project implies the definition of general objectives and the strategy for achieving them but does not refer in detail to all areas of action or all possible actions. Thus, there are loopholes for the definition of various types of alternatives, provided that these are coherent with and do not fundamentally contradict those objectives and the respective strategy. Thus, the proposals of planners will always be conditioned by the results of a permanent analysis of their coherence and feasibility; as George Martine points out: "...it is essential, for the orientation of studies aimed at policy formulation, to consider first of all the types and levels of action possible under the circumstances and restrictions imposed by a particular political model".⁵⁴ This establishes the field of *possible planning*, based on the formulation and execution of alternatives which are effectively viable both technically and politically, and this is a task which always involves a challenge to the imagination and creativeness of planners.

The experience of the regional planning carried out in Latin America provides many examples of the fruitful use of the above-mentioned loopholes to present viable action alternatives. By way of example, let us examine the

following three types of courses of action which have had some success in bringing about some decisions of regional incidence in the Latin American case:

(a) The first type corresponds to projects or policies which are the result of a process of negotiation,⁵⁵ sometimes relatively conflictive, between regional agents and the central power; a good example in this connection is that of the negotiations which culminated in the decision to set up the Camacari, petrochemical complex in the State of Bahia in Brazil.

(b) A second type is that of the projects or policies deriving from a confrontation or conflict between the regional and central levels, generated by a demand made by a peripheral region; there are numerous examples of this type, among which mention might be made on the one hand of the programme of local assignment of resources decided upon as a result of the mobilization of the region centered on Pucallpa in Peru, and on the other hand, the programme deriving from the strike on behalf of regional demands carried out by the population of Puerto Limón in Costa Rica in 1981.

(c) Finally, we must take into account the case of action of regional 'impact' arising from local initiatives and moves, aimed at promoting the improvement of labour, ecological or other conditions in a particular area; in this respect, one of the most interesting cases is that of the process of local reactivation undertaken in the *município* of Lages in the State of Santa Catarina (Brazil), which has had results of notable interest.⁵⁶ Other examples of this type of regional action which are also worthy of mention are those of the process of urban mobilization which has made possible the recovery, reorganization and reactivation of Curitiba in Brazil, and the experience of participative planning in the State of Minas Gerais.⁵⁷

At all events, it should be noted with respect to these experiences that although some

⁵³On processes of negotiated regional planning, see in particular Sergio Boisier, *Política económica, organización social y desarrollo regional*, *op. cit.*

⁵⁴Marcio Moreira Alves, *A força do povo. Democracia participativa em Lages*, São Paulo, Editora Brasiliense, 1981.

⁵⁷See, Paulo Roberto Haddad, *Participação, justiça social e planejamento*, Rio de Janeiro, Zahar Editores, 1980.

⁵³F. H. Cardoso and E. Faletto, *op. cit.*, p. 136.

⁵⁴George Martine, "Migraciones internas: ¿investigación para qué?", in *Notas de Población*, San José, Costa Rica, Vol. VII, No. 19, April 1979, p. 27.

success may have been achieved in them, we nevertheless must not forget that most of the results achieved by action promoted from a region, have not been in contradiction with the prevailing global model; indeed, in many of these cases, the results may be considered as the functional complements of decisions adopted at the central level or, at the worst, as minor modifications of them.

Secondly, because the processes of execution of the political projects which have predominated in many Latin American countries have given rise to a set of acute regional problems which are calling for the adoption of corrective measures by the Governments of the respective countries, and such measures can have an important future incidence on the processes of evolution of the spatial structures. This is so, for example, in the case of the problems already referred to deriving from the unequal territorial distribution of the forces of production and their unequal interregional development.

Many of the national development plans or strategies proposed for various Latin American countries in recent years are examples —although in many cases still rather timid examples— of the concern which these kinds of problems are generating and the type of proposals that are being made to deal with them.

In this respect, quite a lengthy list of examples could be given, but in the interests of brevity only a few of the most representative cases of certain types of action which are now being promoted in the countries of the region will be mentioned below. Most of these examples are the result of concern over the persistent industrial and demographic concentration in a main city; among them, mention could be made of certain policies adopted by Venezuela, Argentina and Mexico in this respect. In the case of Venezuela, an industrial deconcentration policy was adopted in 1976 which seeks, on the basis of a set of coactive measures and incentives, to achieve a change in locational behaviour —especially on the part of industry— so as to check the growth of the Caracas metropolitan area and promote more growth in the regions of the periphery. In the case of Argentina, an industrial relocation law was passed in mid-1979 with the aim of inducing

about 3 500 industrial enterprises to leave the Greater Buenos Aires area over the space of ten years and relocate to different areas in the interior of the province. Once again, the main purpose is to try to find a solution to the problems of contamination, deficient public services and excessive population of Greater Buenos Aires and achieve “more balanced regional development of the Province of Buenos Aires”.⁵⁸ The Global Development Plan 1980-1982 of Mexico, for its part, deserves special emphasis because of its scope and ambitious nature. Starting from the same basic concern, it proposes a vast programme of national-scale policies aimed at “changing migration, employment, urbanization and industrial location processes, strengthening the federal structure, and supporting reorientation towards the coasts and frontiers, within a scheme of deconcentrating by concentrating elsewhere”.⁵⁹

All these examples, like many others that could be mentioned, clearly reflect the concern which is being aroused among Latin American governments by the problems deriving from the model of operation which has predominated up to now. Nevertheless, it is easy to see that the decisions taken have not yet brought about any significant changes in the spatial behaviour of the national system or, consequently, in the respective territorial structures; it may be expected, however, that the worsening of the problems in question is bound to lead to the expansion and strengthening of regional policies in coming years, and this will undoubtedly provide an increasingly broad base for the work of regional planning.

At all events, and by way of final conclusion, it may be said that the possibility of acting successfully in the field of regional planning will depend largely on the capacity of planners for correctly interpreting the conditions, restrictions and possibilities offered by the prevailing political project in each case and circumstance, so that on this basis they can formulate proposals which are coherent with the project's central strategy.

⁵⁸See *Prensa Económica*, Buenos Aires, December 1979.

⁵⁹*Plan Global de Desarrollo 1980-82*, Mexico City, publication of the Secretaría de Programación y Presupuesto, 1980, p. 307.

Poverty

Description and analysis of policies for overcoming it

*Sergio Molina S.**

For a number of years CEPAL has conducted an inter-agency project financed by UNDP and UNICEF on critical poverty in Latin America, in which systematic consideration is given to the characteristics of poverty and policies for overcoming it are suggested. The present article, whose author is the co-ordinator of the project, deals with both the diagnostic and the policy aspects of this question.

In the first part, which is descriptive, the magnitude and characteristics of poverty in the region are traced, and it is concluded that economic growth is a necessary but not in itself sufficient factor for overcoming it, while furthermore State action is essential, since the free play of economic forces does not ensure that resources are assigned in the desired direction.

The second part is devoted to an analysis of the policies for overcoming poverty, which are divided into two broad categories. The 'distributive' policies alter the primary distribution of income resulting from the structure of ownership and the operation of the economic system, and their application is essential for overcoming the root causes of poverty; 'redistributive' policies, for their part, correct the primary distribution through transfers of income and goods and services among the different population groups. Both types of policy complement one another, and the manner and extent to which they are combined will depend on the situation and potential of each country; likewise, they must form part of the global development strategy so as to ensure that economic policy is always oriented, in all its aspects, towards benefitting the most needy.

*Co-ordinator of the CEPAL project on Critical Poverty in Latin America.

Introduction

The poverty and even indigence in which a large proportion of the world's population lives is one of the most dramatic manifestations of underdevelopment. Although in Latin America poverty is not observed to the same degree and magnitude as in other regions, it is still a very widespread phenomenon, since at least one out of every three persons does not have enough income to meet such a basic need as sufficient food for his normal development. The extensiveness and degree of poverty is directly related to the specific conditions of any given country. Thus, for example, there are some countries which are poor in human and material resources and where the average income is close to what has been called the poverty line, i.e., the income needed to satisfy the basic needs; in such cases it is impossible to overcome the poverty situation with the countries' own resources within a reasonable amount of time. It may also happen that a given country has natural resources but that its degree of development is insufficient for it to use them productively. The quantification of poverty may give similar figures in both cases, but in the second, at least, there is potential for greater development.

There is also the case of the countries which have achieved a degree of development such that the average income is considerably higher than that corresponding to the applicable poverty line. When fairly generalized poverty is seen to exist in such countries, the explanation no longer lies in the scarcity of human and material resources, but in the inequitable distribution of wealth and income and consequently of the goods and services produced by their economies.¹

Our observations will refer above all to the third of these situations, since the first two are extreme cases which, although they are the most dramatic, are not those most frequently encountered in Latin America, while moreover each situation would have to be dealt with very

¹ Although empirical evidence shows that inequitable income distribution is also observed in the first two cases mentioned, in these instances the root cause of the generalized poverty lies in the inadequate supply, type and degree of utilization of the available resources.

specifically, which is beyond the scope of this article.

A second clarification which must be made relates to the concept of poverty used here. In general, poverty in a given country is measured in terms of the relative levels of well-being between the different groups of society; consequently, from this point of view, there will always be people who are relatively poor, and indeed this happens even in the most highly developed countries in the world.

On the other hand, we have the concept of absolute poverty, as in the case of those social groups which are unable to satisfy their basic material needs according to a previously established and socially accepted pattern.

Absolute poverty constitutes an extreme situation of inequality and is therefore a special case within the broader concept of income distribution.

The concept of poverty to which this study refers, both in its quantitative aspect and in the identification of situations for which solutions must be found, is the concept of absolute poverty in terms of material deprivation.

Finally, it must be pointed out that the phenomenon of poverty exists in a certain political, social and economic context and is, to a large extent, the result of the way in which these variables interact. Consequently, if the causes of poverty are to be effectively eradicated, efforts to surmount the problem must be part of a global strategy taking into account the changes which must be introduced in the sociopolitical system.

This article seeks to give a broad picture of the magnitude and characteristics of poverty in Latin America and to suggest some policy lines for overcoming it.

I

Background material for a diagnosis

1. *The magnitude and characteristics of poverty in Latin America*

To determine the magnitude and characteristics of poverty it was necessary to establish a criterion for identifying the poor population in a given society. The yardstick used in CEPAL's research has been food;² i.e., on the basis of the production, consumption and price characteristics of each country an estimate was made of the cost of a 'basket' of food which would satisfy, at the lowest cost, the minimum calory and protein requirements for an individual's normal development. The values of the basket of food, expressed in the currency of each country, were converted into a common currency unit (the United States dollar) so that comparisons could be made between the different countries. This in turn makes it possible to

establish poverty lines which reflect the minimum acceptable levels of satisfaction of a group of basic needs: failure to meet these levels would constitute a situation of critical privation as regards the development of individuals and families in that situation.

On the basis of this criterion, a basic line was drawn which was called the 'indigence line' and was equivalent to the value of the basket of food. Consequently, all those people whose disposable income was lower than the value of the basket of food were considered to be indigent, since even if they spent all their income on food they would not succeed in covering their minimum requirements.

Obviously, food is only one of the basic human needs, and it was therefore necessary to determine how the amounts spent on food related to the value of the remaining basic needs. As a result of analysis of the available data, it was determined that those urban groups whose income exceeded the value of the basket devoted about 50% of their total consumption ex-

² See Oscar Altimir, "Poverty in Latin America. A review of concepts and data", *CEPAL Review*, No. 13 April 1981.

penditure to the purchase of food. The poverty line was therefore set at twice the value of the basket of food, since those whose income was below this line would be unable to satisfy their basic needs.

Both the indigence line and the poverty line were calculated on the basis of data corresponding to the period around 1970. Since it was impossible, when preparing the present article, to conduct research similar to that carried out at that time, measures were taken to bring the poverty lines up to date. In doing so, consideration was given to the fact that during the intervening years the average standard of living of the population as a whole has risen, so that there are now new basic needs, while moreover there is now a larger proportion of urban population, which makes it necessary to have a larger income to pay the higher prices and to meet the wider basic needs of urban inhabitants.

The new poverty lines were estimated on the basis of the simple assumption that they grew at a rate equivalent to one-fourth of the increment in the average income of any given country.

Table 1 shows the percentage of the population whose income was under the poverty line in 1970 and 1981. It also shows how this percentage will evolve up to the end of the century provided that the assumptions used in the projection are correct, using two different hypotheses with respect to economic growth.

The data recorded in this table indicate the incidence of poverty in each country and for all the countries together. This information, although valuable, is inadequate since two countries may show an equal incidence of poverty but differ in the degree of poverty. The latter variable, which is known as the poverty gap, is determined by the difference between the average income of the poor and the line of poverty. To put this in another way, the poverty gap is "the total extra income or consumption needed by poor households as a whole to bring them up to the poverty line".

Table 2 shows the evolution of the poverty gap, which in 1970 amounted to 5.3% of the gross domestic product and is estimated at 3.6% of the GDP in 1981 and either 1.6% or 2.1%

Table 1

LATIN AMERICA: PERCENTAGE OF
THE POPULATION IN A STATE
OF POVERTY

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	8	8	7	7
Brazil	49	43	29	35
Chile	17	16	13	14
Colombia	45	43	40	41
Costa Rica	24	22	17	19
Honduras	65	64	62	64
Mexico	34	29	19	21
Panama	39	37	30	32
Peru	50	49	46	48
Venezuela	25	24	22	23
Latin America (10 countries)	39	35	26	30

Source: Enrique de la Piedra, "Nota sobre la evolución probable de la pobreza hasta el año 2000" (mimeographed), Santiago, Chile, 1982.

^aThe projections in the "high growth" column were based on an average annual economic growth rate of 5.9% for all the countries. The "low growth" variant was based on a rate of 4.7%. The rate actually recorded between 1970 and 1981 was 5.5%.

(depending on the economic growth rate assumed) in the year 2000.

From the data shown in table 2, it may be seen that for a substantial proportion of the countries of the region it is becoming increasingly feasible to overcome poverty, from an economic point of view, in spite of the increase in the number of poor people. Obviously, the effort involved in transferring resources to the poor groups, even in a lower proportion than in the past, constitutes a very large-scale economic, social, political and administrative task. It should, however, be pointed out that this task, which seemed impossible for the great majority of the countries 20 years ago, now constitutes an economically possible undertaking, and the problem of poverty is increasingly linked with lack of equity in the distribution of national resources rather than limitations on such resources.

In the 1960s it was widely held that economic growth would solve the serious and

Table 2
**LATIN AMERICA: THE POVERTY GAP, AS A
 PERCENTAGE OF THE GROSS
 DOMESTIC PRODUCT**

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	0.5	0.5	0.3	0.3
Brazil	8.2	4.2	1.4	1.9
Chile	1.9	1.6	0.9	1.0
Colombia	7.7	5.3	2.6	3.3
Costa Rica	3.6	2.7	1.2	1.6
Honduras	23.1	21.8	18.0	21.3
Mexico	3.9	2.6	1.1	1.5
Panama	6.8	5.7	2.6	3.3
Peru	13.4	12.8	9.2	10.9
Venezuela	2.8	2.6	2.0	2.4
Latin America (10 countries)	5.3	3.6	1.6	2.1

Source: Enrique de la Piedra, "Nota sobre la evolución probable de la pobreza hasta el año 2000", *op. cit.*

^aSee the note for table 1.

widespread problems of poverty, the excessive inequalities and the unemployment which prevailed in nearly all the Latin American countries.

At the present time, after having lived through a long period of high growth rates, it is difficult to go on believing that economic growth, independently of the type of development, is enough to correct the most flagrant social inequalities.

Thus between 1950 and 1981 the per capita gross domestic product of Latin America, measured in United States dollars at 1970 prices, rose from US\$ 398 to US\$ 895; i.e., it more than doubled thanks to an average annual growth rate of 2.6%. In spite of the persistently high growth rate attained during three decades, however, the incidence of poverty did not decline proportionally, and the number of poor people continued to grow.

Nor was there any substantial decrease in the inequalities in income distribution or labour conditions. With respect to the latter, it may be noted that the overall rate of under-

utilization of labour³ dropped from 23% of the economically active population in 1950 to 20% in 1980. As for the inequalities in income distribution, these actually increased, since the share of the poorest 20% of the population in total income fell from 3.1% in 1960 to 2.3% at the beginning of the 1980s.

There can be no doubt, however, that although economic growth alone is not enough to overcome the main social problems of the region, it is an essential requirement for doing so. Growth is the process which generates the resources required for combating poverty. Moreover, mention must be made of the advances registered in social conditions thanks to economic growth, which in large measure have benefitted the low income groups. For example, between 1960-1965 and 1975-1980, for Latin America as a whole, the general mortality rate fell by 30% (from 12.2 to 8.5 per thousand), while life expectancy at birth rose by 11% (from 58 to 64 years). As for infant mortality, it fell by 37% between 1960 and 1975 (from 78 to 49 per thousand live births), and between 1960 and 1970 illiteracy declined by one-fifth (from 34% to 27%).

The economic system within which the economic growth process takes place has a significant impact on the latter's results. Nearly all the Latin American countries have a mixed economic system in which the market plays a fundamental role in the allocation of resources. Such allocation is obviously determined primarily by the distribution of income among the different social groups, and as long as that distribution does not change, the market will continue to reflect the demand to which this distribution gives rise. Consequently, the free play of economic and social forces in the market will not serve to orient the allocation of resources towards the production of goods and services to satisfy the basic needs of the poor groups.

Thus, even if the high growth rate of the per capita product mentioned above were maintained, which is not very likely in the light of present conditions in the Latin American economies, the century would close without

³That is to say, the rate of open unemployment plus the equivalent, in terms of open unemployment, of the rate of under-employment.

poverty having been overcome unless at the same time there was a dramatic change in the factors determining the distribution of the benefits of economic progress among the different social groups.⁴

This process also explains why, in spite of the seemingly admirable figures regarding the economic growth process in Latin America and the major investment efforts recorded during the past three decades, there has been no reduction in the extent to which labour is under-employed, which is one of the main factors determining poverty. Although the growth of formal non-agricultural employment has been acceptable (3.7% per year in the period 1950-1980), the proportion of under-employed labour fell only from 46% of the economically active population in 1950 to 42% in 1980.

In addition to the high and growing cost of moving a market from the traditional agricultural sector to the modern urban sector, the use and composition of the economic surplus have played a key role⁵ and, in the last analysis, it has not been possible to offset the combined effect of the high natural growth rate of the urban labour force, the rural-urban migrations, the behaviour of the urban participation rates and the initial magnitude of urban under-employment. It is important to emphasize that these factors are responsible not only for the persistence of the problem of under-employment but also for its progressive transfer to urban areas. Thus, whereas in 1950 70% of the under-employment in Latin America was rural, in 1980 that percentage fell to 54%, coinciding with the big increase in urban poverty.

Table 3 clearly shows that the economic growth process, in view of its present characteristics, will be incapable in itself of producing an overall improvement in employment conditions. In order to bring the rate of total under-utilization of labour down from 20% in 1980 to 6.5% in the year 2000, an annual growth rate of 8.3% would be required for Latin America as a

⁴Oscar Altimir, *op. cit.*, and Sebastián Piñera, "¿Se beneficiarán los pobres del crecimiento económico?", E/CEPAL/PROY. 1/2, Santiago, 1979.

⁵See the article by Norberto E. García, "Growing labour absorption with persistent under-employment", in this present issue of *CEPAL Review*.

Table 3

LATIN AMERICA: GROWTH RATES
REQUIRED FOR A SUBSTANTIAL DECLINE
IN THE TOTAL UNDER-UTILIZATION OF THE
LABOUR FORCE

Countries	Total rate of under-utilization (percentages)		Annual growth rate of GDP required ^a (percentages)
	1980	Goal for year 2000	
Argentina	4.0	2.0	5.7
Bolivia	41.5	10.0	13.4
Brazil	19.9	5.0	8.3
Chile	18.7	5.0	6.5
Colombia	28.0	5.0	7.7
Costa Rica	13.2	2.0	6.8
Ecuador	34.1	10.0	12.1
El Salvador	33.6	10.0	8.8
Guatemala	23.6	10.0	7.0
Mexico	17.0	10.0	8.8
Panama	25.8	3.0	6.5
Peru	36.3	10.0	10.5
Uruguay	12.6	2.0	4.2
Venezuela	12.2	2.0	8.6
Latin America (14 countries)	19.9	6.5	8.3

Source: PREALC, *Dinámica del subempleo en América Latina*, Estudios e Informes de la CEPAL Series N° 10, Santiago, Chile, 1981.

^aCalculated on the basis of figures expressed in thousands of US dollars at 1970 prices.

whole over the next 20 years. Such a rate is of course beyond the real possibilities of growth. The case of the three countries with the highest rates of under-utilization of labour (Ecuador, Peru and Bolivia) is especially severe, since they would need annual growth rates of between 10% and 13% in order to reduce the under-utilization of their labour to 10%.

2. Some conclusions of the diagnostic analysis

The rapid economic growth rate of Latin America during past decades has not had a proportionate effect in terms of the reduction of absolute poverty in the region or a decrease in under-employment. This fact leads to the conclusion that economic growth is a necessary but not in itself sufficient factor for overcoming poverty.

The projections based on historical data

indicate that if the existing style of development is maintained during this and the next decade, the incidence of poverty will decline only very gradually, while the number of poor people will actually rise in absolute terms.

Although it is true that economic growth does not resolve situations of extreme inequality, it is no less true that the degree of development reached in a number of countries of the region is such that it can be said that the problem of overcoming poverty is more closely related to the distribution of growth among the different social strata than to any limitation on resources. Thus, economic growth has made it more feasible to overcome poverty from the point of view of the resources available.

The free play of the economic forces on the market does not make it possible to correct the inequalities in income distribution or to direct the allocation of resources towards the production of the goods and services needed to satisfy the basic needs of the poorest groups of the Latin American population. Consequently, State intervention is required if, either through the market or outside it, the present distribution of property and income which determines the structure of production and consumption is to be modified.

Structural transformations and changes in the operation of the economic system will make

it possible, in the medium or long term, to remove the obstacles now impeding the spread of economic progress to the poorest groups of the population. At all events, however, such transformations will have to be accompanied in the short term by redistributive measures to relieve the state of poverty in which a large proportion of the Latin American population lives.

Redistributive action by the State in Latin America has been inadequate because it has not succeeded in reaching the poorest sectors to any substantial extent, nor has it placed the burden of its financing on the richest sectors of the population.

In view of the present magnitude of poverty and the likelihood that its decline will be very slow—to say nothing of the moral, economic and political significance of this situation—the development strategies of the Latin American countries must give very high priority to the surmounting of absolute poverty. The fulfilment of this objective calls for the allocation of greater material and human resources, as well as a greater effort to promote the organization of the most under-privileged groups and to fit the administrative apparatus to cope with the requirements which must be met if the basic needs of the whole population are to be satisfied.

II

Analysis of policies for overcoming poverty

There is no theory of poverty, and some people tend to seek an explanation for it in the theory of development itself. Massive poverty is undoubtedly a symptom of under-development, and its roots lie in the factors determining the latter phenomenon. Nevertheless, it is possible to identify structural and operational factors of the economy which, although they do not claim to cover the global phenomenon of under-development, make it possible on the one hand to explain the inequalities in income distribution and on the other to design more effective policies aimed at improving the conditions in

which the target groups it is desired to benefit live.

As we understand it, absolute poverty is a particular situation within the broader case of income distribution, and neither of them is independent of the prevailing political, social and economic structure.

We do not believe that the currents of theoretical thought now prevailing contain a satisfactory explanation as to why income in the Latin American countries is distributed in a certain way.

The assumptions of neoclassical theory

are more valid for the developed countries, but they lose their validity when they come up against the reality of under-development, where the keynote is economic, social and political heterogeneity. Post-Keynesian theory loses its value as a means of explaining income distribution when the assumption of stability, both in capital/production relations and in the propensity to save of capitalists and workers, is applied to situations marked by institutional and political discontinuity (uncertainty) and high rates of unemployment. Nor does Marxist thought provide a satisfactory explanation for the extreme inequalities in income distribution, maintaining as it does, in its more traditional form, that the basic problem lies in the antagonism between two social classes—capitalists and workers—from which it deduces production relations which concentrate the surplus value of labour in the hands of the owners of capital.

Moreover, general theories refer in particular to the functional distribution of income in which its family distribution is more important for the purpose which concerns us here, which is the surmounting of absolute poverty.

We agree with a statement made in a publication on income distribution, to the effect that what is needed for a better understanding of the distributive process in our countries is a more disaggregated analysis: "the division into two factors (capital and labour) or two sectors (investment goods and consumer goods) or two social classes (exploiters and exploited) is not enough"⁶

In order to carry out our intention of providing some guidelines for the design of policies aimed at overcoming poverty, we have chosen a less ambitious approach than that of formulating explanatory hypotheses based on some general theory. It seemed more useful to us, from the point of view of those responsible for policy formulation, first of all to set ourselves a central objective, then to determine the factors on which the fulfilment of the objective depends and, finally, to identify the priority areas for intervention, in some cases indicating the most appropriate policy instruments. It is of

course true that the choice of instruments has a strong political connotation and that a particular instrument cannot be recommended without reference to a specific case.

As already noted in one of the conclusions of the diagnostic analysis, the surmounting of absolute poverty calls for substantial and systematic action on the part of the State. Therefore, what is subject to discussion is the form of this intervention, and not the need for it.

The final objective pursued in making the intervention is to ensure that the permanent real income (monetary and non-monetary) of each family is at least equivalent to what is required to meet its basic needs as determined in conformity with certain socially predetermined normative criteria.

The fulfilment of that objective depends on the employment opportunities available to the target groups, the remuneration associated with that employment, the quality of the manpower available, the capital endowment and productivity of the assets possessed by the poor and, finally, the transfers they receive from other agents.

The intervention which the State can make in order to create suitable conditions for overcoming poverty may be classified in many ways. In order to simplify their presentation, we have placed them into two broad categories.

The first category comprises interventions or policies of a distributive nature, i.e., those which affect the primary distribution of the income resulting from the structure of ownership and the way in which the economic system operates. This kind of intervention is normally linked to the quantity and quality of the jobs which the economy generates, the productive factors available to the poor groups, the productivity of those factors, and the prices which the operation of the economic system assigns to them. Such intervention is in the final analysis aimed at increasing the income-generating capacity of the poor groups.

The second category comprises interventions or policies of a redistributive nature, which, instead of affecting the primary distribution of income, correct it by transferring income and goods and services between the different population groups. This kind of intervention is basically related to the way in which

⁶ See Alejandro Foxley (ed.), *Distribución del ingreso*, Mexico City, Fondo de Cultura Económica, 1974.

the State obtains the public resources (the incidence of taxation) and the way in which it spends them (the incidence of public expenditure and investment, particularly social expenditure for the direct, free or subsidized provision of goods and services which are considered to be basic).

There can be no doubt that much public action or policy comprises both a distributive and a redistributive component. The longer the period whose effects are taken into consideration is, the truer this is likely to be. This characteristic of duality necessarily makes any attempt at classification in accordance with the two categories referred to somewhat arbitrary.

From the point of view of resources, interventions of these two types are reciprocal, in the sense that an increase in the expenditure on one of them will, other things being equal, imply a decrease in the expenditure of the other. From the point of view of their results, however, the two types are complementary, for at least three reasons: first, because failure to satisfy basic needs is in itself a major cause of the low income generating capacity of the poor groups. Second, because if consideration is given to the consumption habits of these groups and to the availability of some basic goods and services, it will be seen that increases in real income do not guarantee that their basic needs will be met. Finally, because there is no doubt that, for some groups, distributive action is either not viable or involves long lead times which are incompatible with the urgency of the situation to be resolved. In these cases, action of a redistributive nature seems to be absolutely indispensable.⁷

In short, the development strategy of each country should seek the optimum combination of distributive and redistributive action, bearing in mind the individual characteristics of each case and considering any contradictions which might arise between the different objectives.

1. *Intervention of a distributive nature*

The main feature of distributive policies is

⁷See Ernesto Tironi, *Políticas gubernamentales contra la pobreza: el acceso a bienes y servicios básicos*, E/CEPAL/PROY.1/11, Santiago, 1979.

that they increase the primary income of the people they are intended to benefit.

A variety of policies may be included under the category of intervention of a distributive nature, but they can be divided, in turn, into two groups: those intended to increase, together or separately, the amount and productivity of the employment generated by the economy, and those which are aimed at increasing, together or separately, the amount and productivity of the assets possessed by poor groups.⁸ The policies in the first category will increase the job remunerations of the target groups, while those in the second will increase the income of those with insufficient or low-productivity assets.

The main areas of intervention are indicated below, with attention being drawn to some specific policies and instruments; this is intended to provide a frame of reference for the design of specific policies which are as compatible with each other as possible.

- (a) *Policies aimed at increasing the amount and productivity of the assets possessed by poor groups.*

It would be beyond the scope of this study to suggest specific policies to achieve a more equitable distribution of land ownership and physical capital and bring about a significant reduction in the differences of productivity of the assets possessed by the different social groups. Nevertheless, in view of the importance of measures designed to increase the amount and productivity of the assets in the hands of poor groups, we shall attempt to set forth a few general criteria on which these actions may be based, bearing in mind that they will be applied in specific situations which are very diverse.

The amount of assets possessed by poor groups may be increased by redistributing the existing assets in such a way as to favour those groups or by redistributing future increases in assets by redirecting new investment to favour

⁸Some of the goods and services which can be provided by the State, such as food, education and health, contain a distributive component, but as they also contain a consumption component they have been included in the redistributive category.

these groups. This kind of action is justified because, among other reasons, it has a permanent effect on the income-generating capacity of the groups benefited.

Those who are opposed to this kind of intervention argue that in general it is contrary to the objective of growth and in the last analysis is harmful rather than beneficial to the groups which are supposed to be favoured. In order to prevent this happening (from a purely economic point of view) it is necessary on the one hand to select or identify the sectors whose productivity is least likely to be negatively affected by the transfer of ownership and, on the other hand, to ensure that the rate of return on the investment projects chosen to benefit the poor groups is not lower than the opportunity cost of the capital.

It is likely that in decisions taken in this connection, the economic criterion will be only one of the elements taken into consideration, and that sometimes it will not be the most important element, but at all events it is advisable to know the economic cost of any political decision.

It is also possible that consideration will be given to the time factor, since a measure involving changes in the structure of ownership may not immediately meet the economic needs, although the situation may in time change for the good.

(i) *Redistribution of existing assets*

The redistribution of existing assets is the most direct way of increasing the assets of the poor, but it is also the most conflictive. This type of redistribution may be carried out in two ways —by transferring assets directly to poor families, or by socializing them by transferring them to the State or to a workers' collective.

In general, in the industrial sector the redistribution of assets through direct transfers to poor families presents serious difficulties owing to the indivisible nature of the capital in this sector. Thus, one of the mechanisms most frequently employed for the redistribution of ownership in the urban sector is the nationalization of industrial enterprises by transferring them to the public sector or the creation or

workers' enterprises with collection ownership of capital.

The nationalization of enterprises in the industrial sector or the creation of workers' enterprises does not necessarily result in redistribution which favours the poor groups, since this depends on the amount of the indemnization paid to the former owners, on the efficiency of the way in which the nationalized or workers' enterprises are managed, which will naturally affect the size of the surplus they generate, and on the use made by the State or the workers of the surplus generated.

In the case of nationalized enterprises, the magnitude of the net transfer at the time of nationalization depends on the valuation of the assets transferred (commercial value, book value, etc.), on the amount of indemnization in respect of that value, and the conditions on which that indemnization is paid (including payment dates, interest, rates, etc.). Of course, the decision to pay indemnization as well as the amount and terms on which it is paid depend on considerations which are basically political.

The determination of the levels of efficiency of the management of nationalized enterprises and of the real magnitude of the surplus they generate is a matter of heated debate owing both to the value content of these determinations and to the lack of sufficient empirical data. For a number of reasons, the efficiency of public enterprises, measured in traditional financial terms, may not reflect their true level of efficiency. The reason for this is closely related to the redistributive effect of the nationalized enterprises. In other words, the fact that according to empirical studies many State enterprises in developing countries tend to operate at a deficit⁹ or to produce an insufficient surplus does not mean that they are inefficient. The deficit or low surplus may be partially or totally due to the fact that public enterprises carry out activities which are not performed by the private sector because they are not very profitable but which, in any case, fulfil an important social function which is not reflected in the monetary

⁹ See for example A. Gantt and G. Dutto, "Financial Performance of Government Owned Corporations in Less Developed Countries", in *IMF Staff Papers*, Vol. XV, 1968.

income of the enterprise.¹⁰ The deficit or low surplus may also be partially or totally due to the fact that public enterprises subsidize the purchasers of their goods or the users of their services, by selling them at prices which are lower than the cost of producing them or by paying those who sell them their inputs more than the going rate. In such cases, the nationalization of enterprises involves income redistribution benefiting the buyers or users of the goods and services which those enterprises produce or those providing them with inputs.

Finally, the deficit or reduced surplus may also be totally or partially due to the fact that nationalized enterprises pay their workers higher wages than the going rate or hire more workers than the number considered optimum from the point of view of maximizing the surplus. In such cases, the nationalization of enterprises involves redistribution benefiting the unemployed, own-account workers, or workers in less privileged sectors who join the nationalized enterprises, because the latter make more use of the labour factor.

None of the aforementioned redistributive mechanisms employed by nationalized enterprises necessarily involve redistribution benefiting the poorest groups, however. In view of the nature of the goods and services such enterprises produce, and taking their job structure into account, it is likely that it is the middle-income groups which benefit most from these redistributive mechanisms.

Finally, the redistributive effect of the nationalization of enterprises also depends on the use made of the surpluses and on the way in which the deficits they generate are financed.

If there are surpluses, these do not all constitute additional resources. In the first place, the enterprises in question paid taxes before they were nationalized, so that the increase in resources available to the State actually equals the profits made by the enterprises, less the compensation or indemnization paid and the taxes previously collected. In addition, the policy of nationalizing enterprises may have re-

percussions on the behaviour of the private sector as regards levels of production, investment, etc., thereby also affecting the tax receipts of the fiscal authorities. If there is a deficit, the redistributive effect of nationalization will also depend on the size of the taxes (including inflation viewed as a tax) needed to finance that deficit.¹¹

In short, if nationalization is to be used as a means of improving the lot of the poor groups, it is necessary on the one hand that nationalized enterprises should generate surpluses and, on the other, that the State should appropriate these surpluses and allocate them directly to the benefit of the poorest groups.

In the rural sector, agrarian reform is the main mechanism by which assets are redistributed. Indeed, in view of the high concentration of the structure of land ownership in Latin America¹² and the emphasis which any strategy for overcoming poverty must place on rural development, in many countries changes in the structure of land ownership are indispensable if the benefits of rural development policies are to reach the mass of poor rural dwellers and not just the present owners of land.

There are various options as regards agrarian reform, depending on the approach adopted for allotting the land transferred.¹³

Thus, the land transferred may be allocated to the favoured families as private property; it may be transferred to the State or to a workers' collective or both these approaches may be combined by allocating it as collective property during a transitional period and later on allocating it as private property;¹⁴ or, finally,

¹¹For details of the effects of nationalization processes in Chile and Peru, see the empirical studies by A. Foxley, E. Aninat and J. Arellano, "Redistribución del patrimonio y erradicación de la pobreza", in *Estudios CIEPLAN*, No. 3, Santiago, Chile, 1976, and A. Figueroa, "El impacto de las reformas actuales sobre la distribución de los ingresos en el Perú", in A. Foxley (ed.), *Distribución del ingreso*, op. cit.

¹²See in this respect S. Eckstein, G. Donald, D. Horton and T. Carrol, "Land Reform in Latin America: Bolivia, Chile, Mexico, Peru and Venezuela", World Bank Staff Working Paper No. 275, 1978, and S. Huntington, *Political Order in Changing Societies*, Yale University Press, 1968.

¹³See M. Lipton, "Towards a Theory of Land Reform", in D. Lehman (ed.), *Agrarian Reform and Agrarian Reformism*, London, Faber and Faber, 1974.

¹⁴The 'settlements' created under the Chilean agrarian reform process are an example of this mixed approach. See in this respect A. Foxley, E. Aninat and J. Arellano, op. cit.

¹⁰See in this respect L. Whitehead, "Public Sector Activities", in K. Griffin (ed.), *Financing Development in Latin America*, Macmillan, 1971, and A. Nove, *Efficiency Criteria for Nationalized Industries*, Allen and Unwin, 1973.

family farms and collective farms may exist side by side.

There are many different factors to be taken into consideration in deciding on the best approach to agrarian reform. In this connection mention should be made of the ideological and political factors related to the structure which already exists or is proposed by the government for the other sectors of the economy. Moreover, this decision will also depend on the characteristics of the sector earmarked for reform, the kind of landholding system under which the peasants who are to be benefited have been working, and the levels of skill they have reached.

The experience of countries like Mexico and Bolivia indicates that when the reformed sector is made up initially of large estates using traditional technology requiring a great deal of labour, involving sharecroppers, tenant farmers and smallholders familiar with the various aspects of farm work, the subdivision of the land into small lots and its subsequent assignment as individual holdings has made it possible not only to increase the income of the families thus favoured but also to raise agricultural production. However, this kind of reform means that a large sector of the rural population is excluded from enjoying the direct benefits of the process, so that the way in which this kind of reform affects the peasants who are still left without land is uncertain, depending primarily on the effect produced on the demand for labour. If this effect is negative, it is possible that this kind of reform will make the income distribution of the agricultural sector worse instead of better.¹⁵

In general, experience shows that small farms absorb more labour and have a higher yield per unit of land than large holdings.¹⁶ Consequently, the subdivision of the land increases the demand for labour, although the first to benefit from the generation of more jobs

are the families which receive the land, with the landless peasants coming in second place.

The situation is different when the sector in which the reform is being attempted is made up of large agricultural, forest or fishery enterprises with modern technology, high capital density and big economies of scale. The subdivision of this kind of enterprise into small units may have a significant negative impact on the sector's production and on the distribution of income. In such cases, agrarian reform should be aimed at the formation of production co-operatives or workers' enterprises in which the land is held collectively, rather than at the subdivision of the large agricultural enterprises and their subsequent allocation to favoured individual families, and in the workers' enterprises each worker should receive wages and participate in the surplus. In this way, it would be possible to continue taking advantage of the economies of scale, qualified high level personnel would be retained, and better marketing and credit access conditions would be obtained.¹⁷

In order to prevent agrarian reform—particularly the subdivision of the land and its allocation on an individual basis—from affecting agricultural production, it is important that the State should, at least as a temporary measure, either directly or indirectly promote training and technical advisory services, improve the marketing of inputs and products, and facilitate the access of the new landowners to credit.¹⁸

(ii) *Reorientation of investment*

Another way of achieving the dynamic distribution of assets is to reorient public investment, using it as a means of increasing the amount and productivity of the assets held by poor groups. As in the case of the redistribution of existing assets, and with the same advantages and limitations, public investment may be used as an instrument of gradual socialization, increasing the amount of property held by

¹⁵See in this respect A. Berry, "Land Reform and Agricultural Income Distribution", in *Pakistan Development Review* 11, No. 1, 1971.

¹⁶See in this respect P. Dorner, *Land Reform and Economic Development*, Penguin Books, 1972, and W. Cline, *Economic Consequences of a Land Reform in Brazil*, North Holland Publishing Company, 1970.

¹⁷In this respect, see S. Barraclough, "Alternative Land Tenure System Resulting from Agrarian Reform in Latin America", in *Land Economics*, Vol. XLVI, 1970.

¹⁸See C. Bell and J. Duloy, "Rural Target Groups", in *Redistribution with Growth*, Oxford University Press, 1974.

the State or by a workers' collective, or it can also serve as an instrument for directly increasing the amount and productivity of the assets of the poor. In the latter case, it will be necessary to identify investment projects which are profitable and at the same time concentrate their benefits on the poor groups, keeping the amount which filters down to the rest of the community to a minimum.

In urban areas, public investment may be used to provide own-account workers and small entrepreneurs either free or subsidized working tools, technical and commercial advisory services, credit, etc. This may be done on an individual or collective basis through existing producers' co-operatives or workers' enterprises, or through the creation by the State of what are known as industrial workshops.

In rural areas, investment may be devoted to the construction or improvement of infrastructure works, such as roads and irrigation facilities, the provision of free or subsidized farm tools, machinery and inputs, and the improvement of marketing channels and the access to credit, etc. The effect of this kind of investment on poverty will depend on the returns it is able to yield and on the percentage of the rural poor who have land. Both the widely scattered geographical distribution of poor rural families and the fact that landless families represent over two-thirds of the total number of rural poor families in Latin America severely limit the effectiveness of this instrument. These two factors also make it clear that, in order to reorient investment so as to help a broad sector of the rural poor, in many of these countries this measure must be complemented with land redistribution.

(b) *Policies for increasing the amount and productivity of employment*

The income of poor groups is derived primarily and nearly exclusively from their own labour. Even in the case of those with some productive assets, incorporated labour is the main generator of income. Thus, the demand for labour has a decisive impact on the well-being of the groups with the fewest resources. In addition, the well-being which comes from having a job is not only economic but also psy-

chological, and is reflected in greater family stability.

It is not only the number of jobs generated by the economy which influences the well-being of the poorest people but also the type of jobs available. Experience shows that the modern sector has not grown enough to create sufficient jobs to make it possible to provide employment for the population contingent joining the labour force each year, while at the same time transferring those now in very low-productivity employment to more productive jobs.

Some of the reasons why economic growth has not had the hoped-for impact in terms of alleviating the under-utilization of manpower have already been explained above. There are, however, also other reasons which are connected with the ways in which the Latin American economies operate and result both from structural causes and from distortions created by the application of erroneous policies or the use of inadequate instruments either to maximize economic growth or to generate more jobs.

The challenge consists in identifying policies and instruments which can achieve the results sought in the field of employment and redistribution without affecting growth or with only minimal negative consequences for it.

The growth experience of the Latin American countries has given rise to doubts as to whether the best possible advantage has been taken of the countries' production potential and whether the combination of factors (capital-labour ratio) has been the most appropriate in view of their relative degrees of scarcity. These doubts arise because it is noted that in some countries the sectors which make intensive use of capital and foreign modern technology are of disproportionate size and hence have only a limited capacity for absorbing manpower, especially less skilled manpower. Such sectors use up a high proportion of the capital, yet provide employment for only a small proportion of the labour force.¹⁹ The other sectors, for their part, have seen their growth possibilities adversely affected, have received a scanty part

¹⁹ See Aníbal Pinto, "Styles of development in Latin America", in *CEPAL Review* No. 1, Santiago, first half of 1976.

of the investment resources, yet have had to absorb a large part of the increase in the labour force at low levels of productivity. This heterogeneity in respect of technology, employment and production has tended to increase with time, placing increasingly severe limits on the region's capacity to generate sufficient employment.²⁰

(i) *The productive structure and the use of labour*

It is a well-known fact that the economic growth of the majority of the countries of the region, especially in the case of the industrial manufacturing sector, has been decisively influenced by import substitution, which has been deliberately fostered by policies protecting some sectors from external competition. In many cases this development strategy had its roots in the depression of the 1930s and was further accentuated after the Second World War. As time went on, some of the original characteristics changed, but the import substitution process continued unabated to such a point that it probably prejudiced the growth possibilities of those countries which did not adapt their development strategies to the new conditions.

The policy instrument most frequently used to stimulate the substitution process has been tariffs, which have protected in particular the production of national manufacturing industries.

The question of whether Latin America should or should not become industrialized or whether the allocation of resources should be left solely to the market is not of course under discussion here.

In a mixed economy, the selective incitement of certain sectors of production by the State, either directly or indirectly, is not only one of the main tasks of economic planning but also its main justification.

²⁰See Raúl Prebisch, *Change and Development*, CEPAL document E/CN.12/891; OAS, "Guidelines for Achieving Maximum Employment and Growth in Latin America", 1973; and CEPAL, *Long-term trends and prospects of the development of Latin America*, CEPAL document E/CEPAL/1076.

The observations on the process of import substitution are directed on the one hand at the effects of the decision to protect certain sectors and to take away protection from others, especially when the latter have technological characteristics which make them appropriate to the existing resource endowment, and, on the other, towards the effectiveness of the instrument used, namely, tariff protection.

State intervention should tend to stimulate those sectors where the social benefits exceed the private benefits, regardless of whether they belong to the industrial, agricultural, mining or services area or of the internal or external destination of the product. More specifically, with regard to the utilization of factors in the light of their relative scarcity, the action of the State should aim to eliminate the differences favouring the sectors or subsectors which make the most intensive use of capital, thus putting an end to the discrimination usually suffered by the agricultural sector and other sectors which make intensive use of the labour factor.

These critical reflections on protectionist policies, which have normally been accompanied by exchange policies which have kept national currencies overvalued, would tend to orient countries' trade policy towards greater openness to the exterior. Although we believe that this is a correct decision as regards the achievement of better allocation of resources, increased growth rates, and the creation of more jobs, this in no way means any renunciation of the active promotion and conduct of the development process by the State.

The existence of goods, sectors or regions of a strategic nature; the detection of rigidities, distortions and 'externalities' which involve divergences between private and social values, and the recognition of dynamic components as regards the achievement of competitive advantages are among the reasons which justify intervention at the discretion of the State in order to stimulate or discourage certain activities.

As it is not only trade policies which have affected the production structure of the countries of the region, it is worth drawing attention also to price and investment policies.

With regard to the first of these, it is necessary to make a review in order to identify and eliminate the frequent cases of discrimination

against the agricultural sector and in favour of the industrial sector contained in the price policies applied by many countries of the region. These cases of discrimination have assumed many forms, among which mention may be made of the fixing of prices for agricultural products, prohibitions, quotas or taxes on their export, subsidies and preferential treatment for imports of agricultural commodities, etc. The ultimate objective of all these measures has been to keep down the price of food both for reasons of income distribution (in view of the high percentage of the total consumption) by poor people represented by this item) and because of its importance in determining the cost of living of urban sectors. The review of these policies should take into account not only their direct repercussions, but also their effect on the productive structure, the generation of employment, and the agricultural/non-agricultural distribution of income. To the extent that controls on agricultural prices are justified for redistributive and nutritional reasons, it appears desirable to replace generalized price controls, which affect not only demand but also supply, by selective measures to subsidize certain types of foods for certain groups of persons.

With regard to public investment policy, in this field the lines of action should be directed towards a rigorous appraisal of public projects on the basis of social criteria, so as to reverse the tendency or bias of governments towards the concentration of public investment resources on urban and industrial infrastructure and in sectors of great capital density. This has meant neglecting the rest of the sectors of the economy, especially those of traditional agriculture and small-scale enterprises, which are the sectors making the most intensive use of labour.

(ii) *Relative cost of capital and labour*

In addition to the above-mentioned distortions generated by trade, price and investment policies, there are others due to the increase in the relative cost of labour above the level corresponding to it as a function of its relative abundance in the economy. In this respect, it has frequently happened, especially in countries with persistent inflation, that real interest

rates have been negative, thus provoking a strong demand for credit. It is well known that most bank credit goes to big firms, either because they form part of a conglomerate controlled by the banks, or because they provide better guarantees and hence represent less risk for the lender.

The existence of undervalued exchange rates, the frequent exemptions from import duties on machinery and equipment, and negative interest rates encourage the use of capital, which is the scarcest factor.

In addition, the cost of hiring labour is increased in many cases by factors such as the fact that the burden of financing the social security system falls on the payroll; in some countries, this additional cost comes to over 20% of direct wage costs. Of course it is not suggested that the social security benefits should be reduced, but rather that the system of financing should be changed, in order to make it more progressive and avoid increasing the cost of hiring labour, so as to improve the price relationship between the labour and capital factors.

If the distortions which stimulate the use of capital were corrected and the utilization of labour were encouraged, it would be reasonable to expect an increase in the demand for labour. Furthermore, a higher growth rate could be achieved if measures were taken to permit a change in the structure of production aimed at securing greater development of the sectors where advantage can be taken of natural and acquired comparative advantages and where the level of intensity of capital use is lower. This type of economic growth would have a greater effect on the demand for labour than in the past, provided that the distortions caused by the application of certain policies which have previously limited such a positive effect on the demand for labour were eliminated.

2. *Measures of a redistributive nature*

The nature of the problem of poverty calls for fundamental solutions which change the functioning of the economic system so as to bring about a permanent alteration in the primary distribution of income, increasing the

income of the poor groups to levels compatible with the satisfaction of their basic needs.

Some of these fundamental solutions are those which we classified as distributive in the foregoing section, and consist essentially of the generation of more and better employment and more and better productive assets for the poor groups.

These types of changes would not bring about their effects in the short term, however, so that the lamentable situations of poverty now existing would continue.

Consequently, while recognizing that the permanent solution of the problem of poverty will come from the application of distributive measures, it is necessary to relieve the precarious situation of many families without delay. For this purpose, it will be necessary to make use of what we have called redistributive measures, that is to say, those aimed at correcting the primary distribution of income in order to relieve the situation of the poorest groups through monetary or non-monetary transfers between the different social groups.

Redistributive measures are therefore generally aimed at benefiting a particular target group by providing it with certain goods and services free of charge or at prices below those of the market, or by transferring to it monetary resources which do not correspond to payment for the work of its members or the capital they possess.

As already noted, the market does not offer the necessary solutions for overcoming poverty. Resources can only be reoriented in favour of the poor by an external agent acting through the market but modifying the latter's results, or else operating completely outside it, and in view of the complexity and magnitude of this task, it can only be carried out by the State.

Some of the factors determining or conditioning the magnitude and nature of the redistributive action of the State are analysed below.

(a) *Factors conditioning the redistributive action of the State*

First of all, reference must be made to the need for governments to have the political will and capacity for tackling the task of overcoming or relieving poverty. Lack of real will to achieve

this has been and may continue to be one of the main obstacles standing in the way of the achievement of this objective.

There are many causes which can explain this situation. Chief among them is the fact that as the redistributive action of the State affects the present of future income of the groups which are not poor, these will have to give up part of their income for the benefit of the poorer sectors. The institutional organization and functioning of the power system, however, are strongly oriented in favour of the group of owners, professionals, bureaucrats and organized workers, and are oriented against the groups of low productivity and low level of organization, which include a very substantial proportion of agricultural workers, own-account workers and employees of the 'under-privileged' sectors.²¹ To sum up, the groups which would have to give up part of their share are precisely those with the highest levels of organization and capacity for exerting pressure and influence on governments to check the redistributive action, whereas the groups which should benefit from such action lack effective organization and capacity for exerting pressure to promote it.²²

Another factor which has influenced the lack of political will or capacity has been the belief that economic growth and the elimination of poverty are two mutually incompatible objectives. The result of this has been a tendency to give the problem of poverty lower priority and to emphasize instead the objective of growth.

A second class of factors conditioning the magnitude and nature of the redistributive action of the State is connected with the size of the public sector; its bureaucratic and administrative structure; the lack of sufficient knowledge of the main characteristics of poor households and their members; and the determina-

²¹ See A. Pinto and A. Di Filippo, "Notas sobre la tegia de la distribución y redistribución del ingreso en América Latina"; R. French-Davis, "Mecanismos y objetivos de la distribución del ingreso", and J. Graciarena, "Estructura de poder y distribución del ingreso en América Latina", all in A. Foxley (ed.), *Distribución del ingreso*, *op. cit.*

²² This highlights the importance of the organization of poor groups as part of a strategy for combating poverty.

tion both of the areas where it is necessary to intervene and of the policies and instruments needed in order to carry out redistribution effectively.

The size of the public sector —not necessarily as regards ownership of factors or levels of intervention, but rather as regards its capacity for mobilizing resources— is a fundamental conditioning factor.

As regards taxation, which is the main source of financing for expenditure, it may be noted that the empirical studies made on the incidence of the taxation system in Latin America indicate that, except in a few cases,²³ indirect taxes predominate over direct taxes; there is little or no taxation on property and capital gains; there is ample scope for tax evasion, and there are many cases of preferential tax regulations and exemptions.²⁴

Studies on the incidence of public expenditure, for their part, reveal an even more confused picture.²⁵ Some studies suggest that public expenditure has some incidence in redistribution, whereas others suggest that such redistribution really only transfers income from the top groups to the upper middle groups, without effectively reaching the poor groups. This situation would appear to be due to the fact the latter groups are not incorporated in the mechanisms and channels through which the benefits of public expenditure are distributed.

The administrative structure of the State is another conditioning factor of vital importance. As far as the redistribution of income is con-

cerned, the administrative machinery of most of the countries of the region is more suited to benefiting the middle and upper income groups, particularly in the urban sector, than the lower income groups of society. This administrative structure is to some extent the result of deliberate action, for the reasons already referred to. This is also due, however, partly to a certain degree of ignorance not only of the main characteristics of poor households and their members but also, as already noted, to the fact that the areas of action and the most effective policies and instruments for overcoming or relieving poverty have not been properly identified.

(b) *Redistributive policies: their economic and administrative feasibility*

From the economic point of view, the redistributive action carried out by the State through public expenditure encounters two main obstacles: its negative effect on the growth rate, and the difficulties of financing it. From the administrative point of view, for its part, the main difficulties lie in the identification of the target group and in avoiding the unwanted spread of benefits to other social groups.

Arguments such as those which hold that it is necessary to grow first and redistribute afterwards, that it is not possible to redistribute poverty, etc., have been used to justify the feebleness of redistributive policies. There are few economists now, however, who persist in believing that redistributive action would seriously prejudice growth. In reality, it may be said that the choice between redistribution and growth does not involve a very serious dilemma, except in the case of those countries suffering from generalized structural poverty, where the task of overcoming poverty is beyond the present and potential economic capacity of the country, at least within a reasonable time horizon.²⁶

Some studies carried out for countries of medium development (semi-industrialized countries) in Latin America show that it is feasi-

²³See R. Bird and L. De Wulf, "Taxation and Income Distribution in Latin America: A Critical Review of Empirical Studies", in *IMF Staff Papers*, Washington, D.C., Vol. XX, No. 3, 1973.

²⁴See R.J. Chelliah and others, "Tax Ratios and Tax Effort in Developing Countries, 1969-1971", in *IMF Staff Papers*, Vol. XXII, No. 1, 1975.

²⁵See, for example, R. Bird and L. De Wulf, *op. cit.*, L. De Wulf, "Fiscal Incidence Studies in Developing Countries: Survey and Critique", Washington, D.C., International Monetary Fund, 1974; J. Meerman, "Fiscal Incidence in Empirical Studies of Income Distribution in Poor Countries", Washington, D.C., AID Discussion Papers, 1972; A. Foxley, E. Aninat and J. Arellano, *Las desigualdades económicas y la acción del Estado*, Mexico City, Fondo de Cultura Económica, 1980; and M. Urrutía and C. de Sandoval, "Política fiscal y distribución del ingreso en Colombia", in A. Foxley (ed.), *Distribución del ingreso*, *op. cit.*.

²⁶See H. Chenery, M. Ahluwalia, C.L. Bell, J. Deeloy and R. Jolly, *Redistribution with Growth*, London, Oxford University Press, 1974.

ble to increase transfers of a redistributive nature without this having an excessively adverse effect on economic growth.

Even on the basis of pessimistic economic assumptions, that is to say, assuming that the financing of the transfers would reduce the amount of saving destined for investment and that the expenditure which those benefiting from such transfers would make would have zero productivity, it has been concluded that the trade-off between redistribution and growth would have a ratio of ten to one. In other words, transfers amounting to the equivalent of 5% of the product destined for consumption would reduce the growth rate by only half a percentage point.²⁷

We agree with the author of the above-mentioned study that negative effects on the growth rate may be aggravated if the transfer policies or the set of distributive and redistributive measures cause uncertainty among investors. If tax reform is carried out which mainly or exclusively affects the persons with the highest incomes (the richest 10% of the population, for example), but at the same time changes are also made in the previously established regulations affecting such important variables as ownership, freedom of operation of some markets, free disposability of savings or profits, or others which investors may consider fundamental for taking their decisions in investment matters, it could no longer be said that it is the tax reform which is responsible for the drop in investments, but rather that it is the whole set of measures which provokes direct or indirect effects deriving from the reigning uncertainty.

While it is already difficult in normal conditions to make predictions regarding the behaviour of economic agents, in a process of profound and rapid change such predictions become completely impossible. At all events it is very likely that insofar as large or small investors see radical changes in the rules of the game as being permanent, this will have a negative effect on their decisions regarding whether to invest or not.

²⁷See Marcelo Selowsky, "Income Distribution, Basic Needs, and Trade Offs with Growth: The Case of Semi-industrialized Latin American Countries", in *World Bank Reprint Series*, No. 176.

The second point which must be mentioned, as already noted, is that regarding the feasibility of governments applying redistributive measures on the necessary scale in view of the available resources.

As may be seen from table 2, the poverty gap, as a percentage of the gross domestic product in Latin America (sample of 10 countries), is rather more than 4%. Only in the case of Honduras does there seem to be no possibility whatever of achieving the necessary effort by means of transfers, since the gap amounts to 22% of the gross domestic product.

It is well known that the ratio between the poverty gap and the gross domestic product may give a misleading picture of the feasibility of this objective, from the point of view of the capacity of governments. It therefore seems to be better to compare the poverty gap with the tax revenue in order to gain a more accurate idea of the effort required if a government is to cover this gap.

Table 4 therefore shows the poverty gap as a percentage of tax revenue.

In the light of the average rate of taxation in the region and the imperfections in the tax systems (evasion and legal exemption), it does not

Table 4

LATIN AMERICA: THE POVERTY GAP AS A PERCENTAGE OF TAX REVENUE

Countries	1970	1981	2000 ^a	
			High growth	Low growth
Argentina	5	4	3	3
Brazil	34	19	6	8
Chile	7	6	3	4
Colombia	78	46	23	29
Costa Rica	24	17	8	10
Honduras	216	155	127	151
Mexico	29	17	7	9
Panama	38	27	12	16
Peru	87	68	49	57
Venezuela	20	13	11	12
<i>Total</i>	<i>31</i>	<i>19</i>	<i>8</i>	<i>11</i>

Source: Prepared on the basis of table 2 and projections of tax revenue.

^aSee note in table 1.

seem an impossible task to achieve an increase of between 15 and 20% in taxation, which would permit a substantial increase in social expenditure. If this greater expenditure could be channeled exclusively to the poorest groups, it would be possible to satisfy some of their essential needs.

Consequently, in order for social expenditure to be efficient from the point of view of relieving poverty, it is necessary to make an accurate identification of the target groups, but this is no easy task either, in view of the variety of situations through which poverty manifests itself and the geographical dispersion of the poor. Moreover, it is also a complex matter to administer these policies in such a way that the benefits reach only those whom it is desired to benefit and avoid incurring excessive expenditure through 'leaks' to other sectors. The policies must comply with the criteria of exhaustivity and exclusivity, that is to say, they must manage to completely cover the universe identified as the target group and only that universe.

As may be gathered, it is first of all essential to get over the difficulty of identifying the members of the target group or groups, after which it is necessary to select the most effective instrument for ensuring that the transfers reach only them and the largest possible number of them.

Considerable efforts have been made in some countries of the region in recent years in this respect, through the preparation of maps of poverty. Unfortunately, these efforts are still insufficient, thus making the application of redistributive policies difficult. At all events, there can be no question of waiting until optimum information is available before starting the urgently needed attack on absolute poverty. It is therefore necessary to use the best means available, within the present limitations, in order to set in motion policies aimed at improving the degree of satisfaction of the basic needs of the population.

To sum up, an effort must be made to select redistributive policies which have the least possible negative effect on economic growth and most efficiently reach the target group. All this, of course, is on the assumption that there are the political will and capacity needed to overcome the obstacles which will arise among

the groups which feel that their well-being is affected, either by the higher taxes they will have to pay or through the reduction of the benefits they were obtaining from public expenditure.

(c) *Some forms of redistributive policies*

In general, redistributive policies can be classified in two groups. The first of these consists of policies designed to achieve the direct provision of goods and services to satisfy basic needs, while the second group consists of policies designed to transfer income to the poor. Each of these two groups tackles a particular aspect of poverty, and they form the two sides of a single problem. Thus, both aspects must be tackled simultaneously, since concentrating on only one of them while neglecting or completely abandoning the other would make it impossible to carry out successfully the task of eradicating the manifestations of poverty.

The policies in the second group, that is to say, those aimed at guaranteeing a certain minimum level of income for the poor, take the form of monetary transfers. In general, experiences with this type of policy in Latin America have been limited, and in some cases they have been very costly because of the difficulty of reaching only the target groups. This is so, for example, in the case of transfers made to manual and non-manual workers on the basis of the number of dependents of the head of household. Because of the difficulty of discriminating between households, this allowance is paid regardless of their income, since all wage earners with dependents who satisfy the conditions laid down in the law granting the benefit are given the right to receive it. It must also be borne in mind that a considerable proportion of the poor are not wage-earners. As will be noted, this is a case where neither the criterion of exclusivity nor that of exhaustivity is fulfilled.

Another form of monetary transfer which satisfies the basic objective only in a very partial manner is that of granting unemployment allowances. While this measure may represent important, albeit transitory, relief for painful situations due to unemployment, the available information indicates that open unemployment has been relatively low in the region, and it is

much more frequent for the heads of poor households to be under-employed. Consequently, the unemployment allowance would reach only a very small proportion of the target group and would thus not fulfil the criterion of exhaustivity either.²⁸

Whatever the form of monetary transfer adopted, it will have some similar economic effects. It may be assumed, for example, that it will have similar negative effects on growth, due to the reduction of saving and investment by the groups which will have to finance the cost of the transfers. Likewise, it will have a similar effect on the increase in the consumption of certain goods on the part of those receiving the transfers. Finally, it will be noted that both types of transfers respect the so-called 'freedom to choose' of the consumer in seeking a solution to the problem of poverty.

Policies designed to increase the level of monetary income of the poor are complementary to those aimed at increasing the availability of essential goods and services and the access of poor groups to these.

Since the market will not automatically supply the goods and services needed to satisfy basic needs, the mere fact of increasing the income of the poor will not be sufficient to bring about the shifting of national production resources to produce them. This makes necessary direct public intervention, which should consist of deliberate action aimed at correcting deficiencies in the consumption of given basic goods or services. Such action is designed to offer poor families these goods or services either free of charge or at a lower price than that prevailing on the market.

This State action is mainly carried out through public social expenditure on education, health, housing, etc., but as already noted this action has been insufficient and inefficient. The inefficiency has been due, among other reasons, to the lack of co-ordination in the formulation and execution of social programmes; that is to say, the policies in the different social areas tend to be isolated or, to put it

²⁸ It may be added that in addition these benefits have undoubted overtones of paternalistic gratuity which would appear to justify them only at times of emergency and for a limited period.

another way, it may be said that they are formulated separately as a function of sectoral objectives, with the result that the resources are allocated in accordance with the traditional division of the administrative machinery and the relative weight these divisions have in the government.

The formulation of policies in an isolated manner leads to significant waste of resources, since it does not take account of the important positive 'externalities' in the satisfaction of basic needs, both at the level of inputs and of results.

The types of deprivation suffered by poor families are numerous, and the resources of the State are not sufficient to satisfy all of them at the same time; a way must therefore be found to obtain the maximum yield from the State resources assigned for this purpose.

The State redistributive action must be aimed at simultaneously satisfying more than one type of deprivation. As we have already noted, however, these cannot all be attacked at the same time, so that the problem consists of finding an essential nucleus of basic needs which can be solved simultaneously. In order to do this, it is necessary to select those needs which are of most significance in satisfying the total set of basic needs. For this purpose it will be essential to formulate a guiding criterion which will permit this basic nucleus to be identified through the determination of the needs whose solution would have the greatest positive effect on the satisfaction of other basic needs.

(d) *A criterion for setting priorities*

One possible criterion for identifying the essential nucleus of basic needs which are to be satisfied through redistributive policies would be to determine what problems a poor person encounters in the course of his life. In order to facilitate the identification of these problems the population may be divided up by age groups such as 0-6 years (infancy); 7-20 years (childhood and youth); 21-65 years (adults), and over 65 years (old age).

In the first age group (infancy, 0-6 years) the problems take three main forms: the high degree of morbidity and mortality, malnutrition, and 'socio-cultural' mental backwardness.

In spite of the progress made, infantile mortality in the countries of the region continues to be high. To take an extreme case, for example, the rate of infantile mortality in El Salvador in 1975 was nearly seven times greater than that of Sweden. The main illnesses affecting children in this age group are epidemic diseases, respiratory problems and diarrhea. Their exposure to these begins while they are still in their mother's wombs and subsequently continues as a consequence of malnutrition and poor health conditions. Finally, mental backwardness among poor children, which is quite widespread in its slight and moderate forms, is due to malnutrition and lack of stimulation, and is manifested later on in learning difficulties, deficient school performance, and low levels of attention to lessons in school.

It will be seen from the foregoing that priority must be given firstly to policies aimed at promoting the education and nutrition of mothers before, during and after pregnancy and delivery; secondly, to a policy to improve the nutrition of young children, and finally, to centres providing integral attention to children, with stress on health care and early stimulation.²⁹

It should be stressed that, because of its high incidence on the future development of human beings, the priority State action should be concentrated on this age group.

²⁹With regard to the situation of children under six years of age in the region and policies and programmes aimed at benefiting them, see UNICEF, *Dimensiones de la pobreza en América Latina y el Caribe*, Santiago, Chile, 1982; F. Galofré (compiler), *Pobreza crítica en la niñez*, CEPAL-UNICEF, Santiago, Chile, 1981; E. Pollitt, *Poverty and Malnutrition in Latin America. Early Childhood Intervention Programs*, New York, Praeger Press, 1980; UNICEF-CEPAL, *Indicadores sobre la situación de la infancia en América Latina y el Caribe*, Santiago, Chile, 1979; J. P. Terra (co-ordinator), *Situación de la infancia en América Latina y el Caribe*, UNICEF, 1979; M. Maurás, J. Filp. C.L. Latorre, *La atención al preescolar en América Latina y el Caribe*, UNICEF, 1979; S. Brálic and others, *Estimulación temprana. Importancia del ambiente para el desarrollo del niño*, Santiago, Chile, UNICEF-CEDEP, 1978; L. Mata, *The Children of Santa María Cuaqué: A Prospective Field Study of Health and Growth*, MIT Press, Cambridge, Mass., 1978; L. Bravo and H. Montenegro, *Dos estrategias para el desarrollo de niños de extrema pobreza*, Santiago, Chile, UNICEF, Ediciones Nueva Universidad, 1977, and F. Galofré, "Formulación de políticas de infancia y juventud en familias pobres", E/CEPAL/PROY.1/R.46, Santiago, Chile, 1981.

The second stage in question is that of childhood and youth (7-20 years of age). As the rate of physical growth of the children slows down, the problems which previously affected them so seriously declined in importance; the degree of malnutrition goes down, and this reduces the levels of morbidity and mortality. The most significant problem during this stage is that of education, since it is at this time that individuals must prepare themselves for appropriately assuming the responsibilities they will have when they are adults.

Education is the way in which the human potential of each individual is developed; consequently, the policy to be followed in this case consists of ensuring the participation and continued presence of children in the educational process, and it will be necessary to identify the most effective instruments for this purpose. Furthermore, it has been shown that education brings clear social and economic benefits. Thus, according to World Bank studies,³⁰ the social yield of investments in primary education in developing countries is 24%, i.e., higher than the yield of many alternative projects. For secondary and higher education, the social yields are 15% and 12%, respectively.

Finally, towards the end of the age period in questions the problems which affect young people begin to appear, especially those due to the idleness resulting from failure at school and the lack of work opportunities. Since this subject could easily provide material for several articles the size of the present one,³¹ we shall merely limit ourselves to drawing attention to its existence here.

In the adult period (21-65 years of age), the main problem encountered is lack of a stable job with a sufficiently high level of wages to satisfy the person's basic needs. Distributive policies aimed at generating employment through changes in the structure and operation

³⁰See *World Development Report 1980*, Washington, D.C. World Bank, 1980.

³¹See H. Kirsch, "The participation of youth in the development process of Latin America: Problems and policies regarding labour force insertion, education and employment opportunities" in this number of *CEPAL Review*; OECD, *Entry of Young People into Working Life*, Paris, 1977; OECD, *Youth Unemployment*, Paris, 1978; Adolfo Gurrieri et al., *Estudios sobre la juventud marginal latinoamericana*, Mexico City, Siglo XXI Editores, 1971.

of the economy should be complemented with others aimed at generating additional jobs. To this end, a programme could be worked out which on the one hand creates jobs in the public sector and, on the other, grants subsidies for the hiring of labour in the private sector.³² This type of programme could be of a similar nature to monetary transfer programmes, and could probably advantageously take the place of some of them, since this type of monetary transfer would be carried out through the provision of employment, which is an objective in itself and may be considered as a basic need of the family. In this respect, there is experience available in a number of countries; the target groups are self-determining, and this experience could be put into practice quickly.

In the case of poor persons over 65 years of age, they should be covered by some system of old age pensions and disablement and sickness insurance.

A target group which may exist in any of the age groups is that of the handicapped. Both persons who have had to stop working and those whose working life has been limited by sickness or accidents should be the concern of society as a whole and should not be a burden only on their immediate family.

To sum up, the State should tackle the problem of poverty through the redistributive measures outlined in this section, that is to say, by generating additional jobs and reformulating social policy in order to expand its results and make it more efficient. It may be objected, among other things, that a programme of this nature is too costly to be tackled by fiscal means; that it is difficult to administer; that in the case of the generation of employment there is a lack of projects which are sufficiently productive or of social interest; and moreover that this type of palliative action tends to divert attention from fundamental changes and helps to put off the political decisions which would provide a permanent solution to the problem of poverty.

The question which arises in the light of

³²See Enrique de la Piedra, "Generación de ingresos para grupos pobres: Análisis de dos instrumentos de creación de empleos adicionales", *Boletín de Planificación del ILPES*, No. 15, 1982.

this latter objection is whether it is admissible from an ethical point of view to wait for structural changes to take place without previously taking appropriate measures to at least relieve the situations of absolute poverty, especially as it is well known that the structural changes must be accompanied by high growth rates for a long period if the most dramatic expressions of poverty are to be overcome, and that it is highly improbable that both circumstances will exist at the same time. In our view it is therefore a moral obligation to make use of all possible means to overcome or relieve poverty as soon as possible.

Accepting this assumption, the question arises of whether a massive programme of development of employment and reorganization of social policy is viable from the point of view of its financing. The situation varies from one country to another, but it may be held that, except in the least developed countries of the region, the programme is economically viable. The reorganization of social policy, for its part, will call basically for the redeployment of available resources rather than an increase in them. As regards the cost of a programme for the massive creation of additional jobs, an illustrative calculation using data representative of the Latin America countries of medium development comes to the conclusion that if a country assigns 3% of its gross domestic product to a job creation programme, about 15% of the labour force would be benefited by that programme.

According to these representative data, the taxation in the country should not increase by more than 15%. This percentage will be lower if it is possible to transfer to this programme resources currently being used in a less efficient manner (such as certain subsidies) or other current and capital expenditure (defence, luxury investments, university education, etc.) which is of lower priority from a social point of view and whose reduction would not have negative effects on economic growth or distributive equity.

As regards administrative aspects, the establishment of a fund to combat poverty could help to give greater prestige to the programme for generating additional jobs in the eyes of the public; to give a better political image; to ensure efficient investment of resources; and to

identify economically or socially profitable projects. Such a fund could have a 'representative' governing council at the national level and subsidiary bodies at the regional level; its technical and administrative staff could be small in number and its main function could be to promote the formulation of projects in close collaboration with the authorities responsible for social policy and subsequently evaluate them in order to set priorities. The financing for this fund would come mainly from the reallocation of budgetary expenditure, from economies achieved through the reduction of inefficient subsidies, from increased taxation, and from external credits obtained for the purpose of improving the income of the poorest sectors. It would obviously be highly desirable to provide extensive information on the use made of the fund at the national and regional level in order to endow its administration with the greatest respect and credibility in the eyes of the public.

None of the above observations seek to minimize the effort needed in order to put a redistributive programme such as that described in this section into practice, or to belit-

tle the importance of the political, economic and administrative obstacles which will have to be faced. We wish to stress, however, that countries which have achieved, among other conditions, a certain level of development, which have relatively plentiful technical teams, which have a relatively long-standing public administration tradition and have achieved some degree of decentralization would be well fitted to carry out the necessary changes in public expenditure and allocate additional resources to satisfy the basic needs of a large part of their population without significantly affecting economic growth or political stability.

It will be understood that this is only a broad and incomplete outline of a subject which is both very complex and of enormous importance. Although each topic can only be dealt with specifically in the light of actual national situations and by persons who are familiar with these in detail, however, we are sure that the general guidelines given in this section could be of use to these persons in orienting their work.

III

Priority areas of action

The material set forth in this study, together with the many existing studies of a general or methodological nature (many of them referred to specifically above), as well as the various case studies, allows certain conclusions to be reached on the policies to be followed. This task is made more difficult, however, by the wide range of different situations presented by the individual countries, beginning with the demographic characteristics and the proportion of the population living in urban and rural areas, the differing economic conditions, and different forms of social organization and of the structure of political power.

Although we are well aware of the difficulties raised by the heterogeneity of Latin America when putting forward a policy proposal, we feel that it is possible to set forth some priority

guidelines for the context of a mixed economy where public and private ownership of the means of production exist side by side.

1. Absolute poverty will not be eradicated until the structural factors which cause underdevelopment are changed. These factors are related, *inter alia*, with: the way in which the Latin American economies are fitted into the international context, which has negative effects in the form of inequitable trade relationships, the adoption of types of technology which are not appropriate to the relative availability of factors of production, the copying of patterns of consumption which do not fit in with our capacity for saving, etc.; inequitable distribution of wealth and income, which leads to the concentrated accumulation of surpluses that are not always converted into savings and

investment; the level and sectoral and regional composition of investment; intense urbanization, with the existence of numerous low-productivity production units which have no access to credit, technical assistance or marketing channels; differences in level of organization between the different social groups, which makes possible the predominance of the interests of organized groups over those which have not yet satisfied their basic needs; and the structure of political power, which is reflected in the allocation of private and public resources and tends to perpetuate existing inequalities.

We are aware that removing these structural obstacles is a long-term task and involves the execution of profound changes. At the same time, however, we are convinced that it is absolutely essential to face up to this challenge if it is really aimed to reach a situation where the whole population can satisfy its basic needs.

2. In addition to the structural factors referred to above, which are the determinants of the prevailing development style, policies have been applied which have limited the positive effects that economic growth could have had for the poorest groups of the population. These policies can be corrected, however, with favourable effects in the short term. Among these policies are, in particular, those designed to correct distortions in the prices of goods and factors of production; those which influence the allocation of resources and the production structure; those concerning public investment; those modifying the structure of ownership; those promoting social organization, etc.

While it is not possible to make specific recommendations regarding these policies, some general guidelines can be given.

In the first place incentives should be given to the sectors or subsectors which make intensive use of the labour factor. For this purpose, it is necessary to start by eliminating the differences which currently favour certain activities making more intensive use of capital, such as tariff and tax exemptions, preferential interest rates, negative interest rates caused by inflation, excessive and persistent tariff protection, undervalued exchange rates, etc. In addition, measures should be taken to eliminate distortions in relative prices which act to the detriment of labour and principally arise when

the cost of hiring labour is increased for reasons other than its direct wage cost (for example, charges made for the purpose of financing social security).

Secondly, in the rural area —where the greatest proportion of absolute poverty exists— measures should be taken to increase the relative share of this sector in income, although at the same time it will be necessary to change the factors currently responsible for its faulty distribution. In order to achieve this double objective it will be necessary, on the one hand, to expand the ownership of land, which is at present excessively concentrated; to provide technical assistance, credit and marketing channels for small agricultural proprietors in order to increase their productivity and income; and to promote the development of peasant trade unions in order to improve their negotiating capacity and, as a result, increase the income of landless workers. On the other hand, it will be necessary to eliminate the discriminatory fixing of prices and modify both the subsidies and preferential treatment given to imports of agricultural products and such measures as export prohibitions, quotas or taxes, which negatively affect the development of the agricultural sector.

Policies designed to stimulate the development of the agricultural sector are justified from the distributive point of view only if they simultaneously fulfill the conditions already referred to as regards the deconcentration of land ownership, improvement of the conditions of small agricultural proprietors, and development of peasant unions. If this is not done, the larger income of the rural sector will benefit only or mainly those at present owing land.

Thirdly, as regards the non-wage-earning marginal urban sectors, it is necessary to identify the activities which are really viable and whose present low productivity is due mainly to their low capital endowment and their lack of access to credit and technical assistance. In this way it will be possible to concentrate on them the efforts to promote their organization into co-operatives or other forms of associations and to provide them with the technical and administrative facilities and conditions which they need in order to increase their productivity and

future development. Those members of this group who cannot become own-account workers could become beneficiaries of the programme of additional jobs referred to earlier.

3. The slowness of the structural changes and the inadequacy of the changes in policies designed to divert more of the benefits of economic growth to poor groups make it essential for the State to take urgent action to provide direct relief for the most dramatic poverty situations.

This action consists of transferring monetary resources and free or subsidized goods and services to those it is desired to benefit. The application of this type of policy, however, runs into practical obstacles which are difficult to overcome, among which special mention may be made of the difficulty both of identifying the groups which it is desired to benefit and of establishing effective mechanisms for reaching them.

In our opinion, the resources obtained from the expansion and reformulation of the existing transfer programmes should go to two priority destinations: the execution of a programme of additional jobs designed to give a minimum monetary income to workless heads of households and young persons, and the application of a plan aimed at overcoming the problems of infants and children, since these problems form the first link in the vicious circle of poverty.

The programme of additional jobs would be the means of guaranteeing a minimum monetary income, while at the same time it would make it possible to identify the target groups, since those applying for such benefits would by definition be poor, in view of the type of jobs and the level of remunerations that such a programme could offer. This would make it possible to concentrate the provision of direct services on poor families; it would permit the correction of the inefficient features of the labour market as regards matching those seeking and offering work; it would facilitate the placing of workers from the special programme in regular jobs by subsidizing private hiring, and it would make it possible to select from the

young persons accepted for the employment programme those suitable for training and for subsequently seeking jobs in regular production activities. Moreover, the registration of poor families and of their needs and characteristics would make it possible to direct more effectively the programmes aimed at favouring the children of poor families. Outstanding among these programmes, on account of their importance, are those for providing attention to pregnant women, nutrition programmes, and pre-school education programmes. Their application, as well as being essential for overcoming the vital problems affecting children of early age, would enable such children to embark on their basic education without suffering the serious disadvantages affecting them at present. Thus, the continued attendance of children at school would depend mainly on their capacity or on economic factors. In the latter case, it is the obligation of society, through the State, to solve these problems in order partly to make good the injustice deriving from the unequal opportunities due exclusively to the different economic situations of families.

4. We wish to repeat that the eradication of absolute poverty calls for profound changes in the present economic, political and social structure of the countries which have not yet succeeded in overcoming it, but at the same time we are convinced that while waiting for such changes to take place it is both urgent and possible to undertake significant action to benefit Latin American families which are at present not in a position to satisfy their basic needs and whose personal, family and social development are thus severely limited.

Today it is more urgent than ever to tackle the serious problem of absolute poverty, since the economic situation through which the Latin American countries are passing is very unfavourable compared with that of past decades. Unless there is a change of attitude to combatting poverty, this will increase in the region, and this is morally unacceptable, highly dangerous from the point of view of social peace, and economically avoidable.

The participation of youth in the development process of Latin America

Problems and policies regarding labour force insertion, education and employment opportunities

*Henry Kirsch**

After a period of relative neglect the issue of the specific problems of 'youth' is gaining preeminence again in both developed and developing nations. In the closing years of the 1970s this concern was particularly evident in the industrialized North. Experts have produced a significant body of literature, policy-makers have given the theme considerable revaluation and international organizations have regularly incorporated it into the body of resolutions adopted at their major assemblies. This resurgence of interest in the problems of youth has spread most recently to Latin America as a consequence of the alarm at the exceptionally high rates of unemployment among youth, extensive school desertion, increased delinquency and increasing rejection of the existing social order by young people in the secondary and higher levels of education in certain countries of the region. On the basis of the few empirical studies carried out in Latin America on this subject, the present article examines the situation and needs of youth in Latin America from three vantage points: youth as a category of analysis and object of policy and planning; the insertion of youth into the labour force, and the interaction between education and employment possibilities.

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I

Youth as a category of social analysis and object of policy and planning

For analytical purposes the question of the problems facing the full participation of youth in the development process of Latin America¹ still encounters a major conceptual hurdle to be overcome. This consists in the selection of an adequate definition of youth. Does the conventional approach of considering those between the ages of 15 and 24 years of age to be in the 'youth' category represent a satisfactory solution? Of course, for some kinds of analysis and for statistical purposes it is useful; but for a study directed at the implications for social policy formulation, how adequate is such a concept? On the whole, in the developed nations 'youth' as a concept has pretty much been taken for granted. Although most sociologists recognize that youth is a variable and multidimensional phenomenon, studies have tended not to pursue the question of the variability of this concept.²

If the definition by age is rejected on the grounds that youth as thus defined does not constitute a real social group, then how can this category be described? There is a vast array of possible criteria and combinations of criteria for defining youth, ranging from certain biological changes to considerations of the aims and values of the political system. Though obvious, this is often forgotten and is worth mentioning here. The problem is complicated still further by the fact that the various criteria overlap and are only partly distinguishable

¹ As already noted, this subject is gaining in importance. After the discussion of policies and programmes relating to youth at several sessions of the United Nations General Assembly, International Youth Year has been announced for 1985. The OECD has held high level conferences on youth unemployment and programmes related to education, training and employment of young people have been implemented in Australia, Canada, Japan, the United States and most European countries. See Organization for Economic Co-operation and Development (OECD), *Entry of Young People into Working Life* (Paris, 1977) and *Youth Unemployment* (Paris, 1978); Council of Europe, *Youth and Employment in Europe* (Strasbourg, 1979), and Eli Grinberg, "Youth Unemployment", in *Scientific American*, 242:5, May 1980.

² Leopold Rosenmayr and Klaus Allerbeck, "Youth and Society", in *Current Sociology*, 27:2/3, 1979, p. 9.

from each other. The psychological and social changes that may be used to define youth are to a certain extent related to biological changes, while the latter too may be influenced by the social environment. In this context it is important to look upon youth from a sociological rather than biological perspective. This approach views youth as covering two main phases—adolescence and young adulthood—defined by attitudinal systems and behaviour patterns related to a particular position in society. All special population groups linked to age status, particularly childhood, youth and old age, relate to biological facts yet are structured by social forces.³ Consequently, there is some advantage in accepting the set of criteria contained in Carlota Bubler's definition of youth as an intermediate period which begins with the acquisition of physiological maturity and ends with that of social maturity: in other words the assumption of the sexual, economic, legal and social rights and responsibilities of the adult.

This working definition indicates that the start and the length of the period of youth varies considerably. The duration, position or quality of youth (adolescence and young adulthood) depends upon the systems of production, the technological and economic tasks involved, and the training and education needed to perform these tasks. Youth is further determined by the ideologies, the aims and values of the political system and by access to these conceptual and interpretative structures through education. It is a product of societal reproduction as well as a force in social change or social transformation. The degree to which young people cleave to reproductive channels or pursue paths of transformation depends on the particular historical constellation, on the

class structure, and on the degree of freedom they are able to obtain and handle within a given social system.⁴ The period of youth is affected by the level of national development and differs widely from one social group to another. It is very long among the middle and upper strata (especially in highly-developed societies), shorter among workers, much curtailed among marginal urban groups, and often considered to be practically non-existent among peasants.

The question has been posed whether young members of some groups of the urban and rural lower strata constitute a generational group with its own identifiable problems and attitudes, because their transition from childhood to full adult responsibilities is so brief and early.⁵ Nonetheless, it must also be remembered that very large proportions of the young people from rural-agricultural families in Latin America continue to migrate to urban settings and that many who stay in the countryside, because of the combined rural processes of modernization, salarization and marginalization, no longer follow the traditional early transition to adult labour and family formation.⁶

For policy-making purposes the different subsets of youth—adolescence and young adulthood—represent groups in themselves with different environments and needs. But it is just as important to recognize that, particularly in Latin America, policy-oriented analysis and planning for youth must derive from due consideration of the fact that the conditions and issues concerning this group do not constitute a problem pertaining exclusively to it, but reflect the problems of the societies in which it is inserted. Accordingly, these conditions must be analysed in the framework of the overall process of economic development and social and political change in the region, with particular reference to the social, economic, cultural,

³Given the increasing attention of the United Nations to age-related special population groups, e.g., childhood, youth and the aged, Leopold Rosenmayr's basis for a conceptualization of age which combines sociology, social history and depth psychology in one interdisciplinary network is relevant: "Age is a socially and individually produced artefact, interacting with biological premises, and corresponding to the differentiated forces of society which express themselves through forms of production and the division of labour and through informative cultural transmission, communicative processes and political power, which thus act as a definite normative challenge to the individual". *Ibid.*, p. 37.

⁴*Ibid.*, p. 17.

⁵See Adolfo Gurrieri *et al.*, *Estudios sobre la juventud marginal latinoamericana* (Mexico City, Editorial Siglo XXI, 1971). A detailed description of an extreme urban situation of street children and adolescents (known as "gamins") in Colombia is to be found in Virginia Gutiérrez de Pinéda *et al.*, *El Gamin: su albergue social y su familia* (Bogotá, UNICEF, 1978).

⁶See Luis Jünemann, *Expectativas migratorias de la juventud campesina* (Santiago, PREALC, 1979).

linguistic and ethnic characteristics which together form the basis for identification of concrete, meaningful social groups existing under the catch-all umbrella of the general population category referred to as 'youth'.

Although the problems, specifically generation gap differences, are relevant, youth is by no means a monolithic group. Although it is true that for certain purposes generalizations on given issues which are valid for Latin America as a whole may be made, the concept of a Latin American youth has limited applicability. This is also pertinent within countries but may occasionally be lost sight of in the conventional listing by international organizations of priorities for programmes of measures and activities for youth.⁷ Although in principle another reality may be recognized, in practice the actual formulation of guidelines for national and international action adheres to the more expedient approach of a common perception of the interests and needs which bind youth together. It is probable, moreover, that as International Youth Year approaches and the issue of youth receives worldwide attention as another major problem of development, small but articulate, vociferous and relatively well-contacted groups claiming to represent their generation will bring to the forefront of national attention the demands of their specific social strata, paying only lip service and obtaining only piecemeal or mere showcase solutions for the weak and, in conventional social terms, disorganized youth of the marginal segments of society. It is likely to become increasingly clear that not only is the objective situation of the indigenous youth of the Andean Highlands different from that of young people in the metropolitan centres of Colombia, Peru and Venezuela, but also the extent of common bonds between them is questionable, as is the degree of shared perception of interests and needs between rural youth in Mexico and Brazil and young people in Mexico City, São Paulo and Rio de Janeiro, or the depth of solidarity existing between the young people of the poorest and marginal areas of cities and their middle

and upper strata counterparts who actively participate in official youth organizations.

Both in terms of establishing policy-oriented analytical constructs of youth and in the identification of those who occupy the various youth roles it is important not to overlook the role of the State. Age-groups and their position in society depend on the overall governmental system of social distribution, that is to say, on whether and in which way public funds are spent, and on the priorities defined concerning schools, universities, youth centres, youth movements, youth-oriented employment policy, social security schemes, etc... Roles are influenced to a significant extent by socio-political decisions. In this regard the French sociologist Nicole Abboud, who has studied the importance of the role of the State in the segregation of young people before the appearance of rebellion and revolt in the late 1960s in France, made the following observation: the greater the State's ability to bring about a political consensus in society, the less advanced is the politization of social practice in various institutions, and the less can 'youth' be said to exist as an active social category in the overall context of the political organization of society and also as an ideological theme.⁸ Abboud sustains that an example of such a situation is provided by France between the two world wars. Young people did not exist as a separate social factor. The political organizations and religious groups all had their 'youth' movements, and the more the State endeavoured to "organize political and cultural life around it", the more youth was reduced to a mere 'age group'. According to Abboud this is the origin of the real 'alienation of youth'. She contends that in the technocratic-neocapitalist system prevailing in France up to 1967 young workers were placed in a category of youth which was viewed in completely abstract and empty terms and had no practical political relevance; in this way an attempt was made to consolidate a "false consciousness of belonging to a single 'age group'". This raises the question of the appropriate mode of State action in the process of providing social services

⁷ See United Nations *International Youth Year: Participation, Development, Peace*, Report of the Secretary-General (A/36/215), 19 June 1981.

⁸Rosenmayr and Allerbeck, "Youth and Society", *op. cit.*, p. 39.

and the difficulties encountered in the definition and implementation of bureaucratic organization in the field of youth and participating models of action.

While this brief critique of past 'conventional wisdom' has some validity for examining the precise role of the State as an organizing force *vis-à-vis* the realities of the stratification of youth and the requirements, potentialities and limitations of effective participation in the case of Latin America, it is just as essential not to uncritically adopt the analytical categories employed by the developed nations nor the policy measures adopted by them to confront the problems of youth. Undoubtedly, their experience and the concepts they have developed can serve as useful points of reference and perhaps even as models for given problems of youth from a specific socio-cultural strata in certain countries, but in other cases the situation will be entirely different. Moreover, the well-known structural heterogeneity prevailing in Latin American societies magnifies the gap between the different situations among youth stemming from stratificational, cultural, linguistic and ethnic diversity. It is thus not a matter of simply adopting the typology of

youth with special needs and problems often used in contemporary developed market societies, where they are divided into hard-core unemployed, underprivileged young workers and rebellious alienated students in institutions of higher education.

In this context, it is worth while recalling the observations of José Medina Echavarría, who said that while there can be no doubt that some of the questions examined and points discussed in relation to the industrialized societies may be valid and may be accepted without more ado for some of the countries of Latin America, the situation of young people in other countries which are still far removed from this state of affairs may be completely different. The study of Latin American youth, he said, provides a visible and dramatic illustration of what also applies in respect of other problems: the need to go beyond commonplaces and devote ourselves fully to the search for reality: a reality whose very special complexion gives grounds for believing that it cannot be adequately covered by handed-down categories or categories taken over unchanged from other environments which are more advanced or —much worse— still more backward.⁹

II

Insertion of youth into the labour force: present situation and future trends

One of the striking features of the Latin American labour force is the high proportion of youth in it (figure 1). In 1970 one-third of the economically active population consisted of young people between 10 and 24 years of age (table 1). This situation is in strong contrast to the situation in developed parts of the world and is even more accentuated in rural areas. Youth economic activity is highest in the female labour force, and the importance of the participation of young women becomes even more apparent as future trends by country are examined according to adolescent (ages 15-19) or young adult (ages 20-24) economic activity.

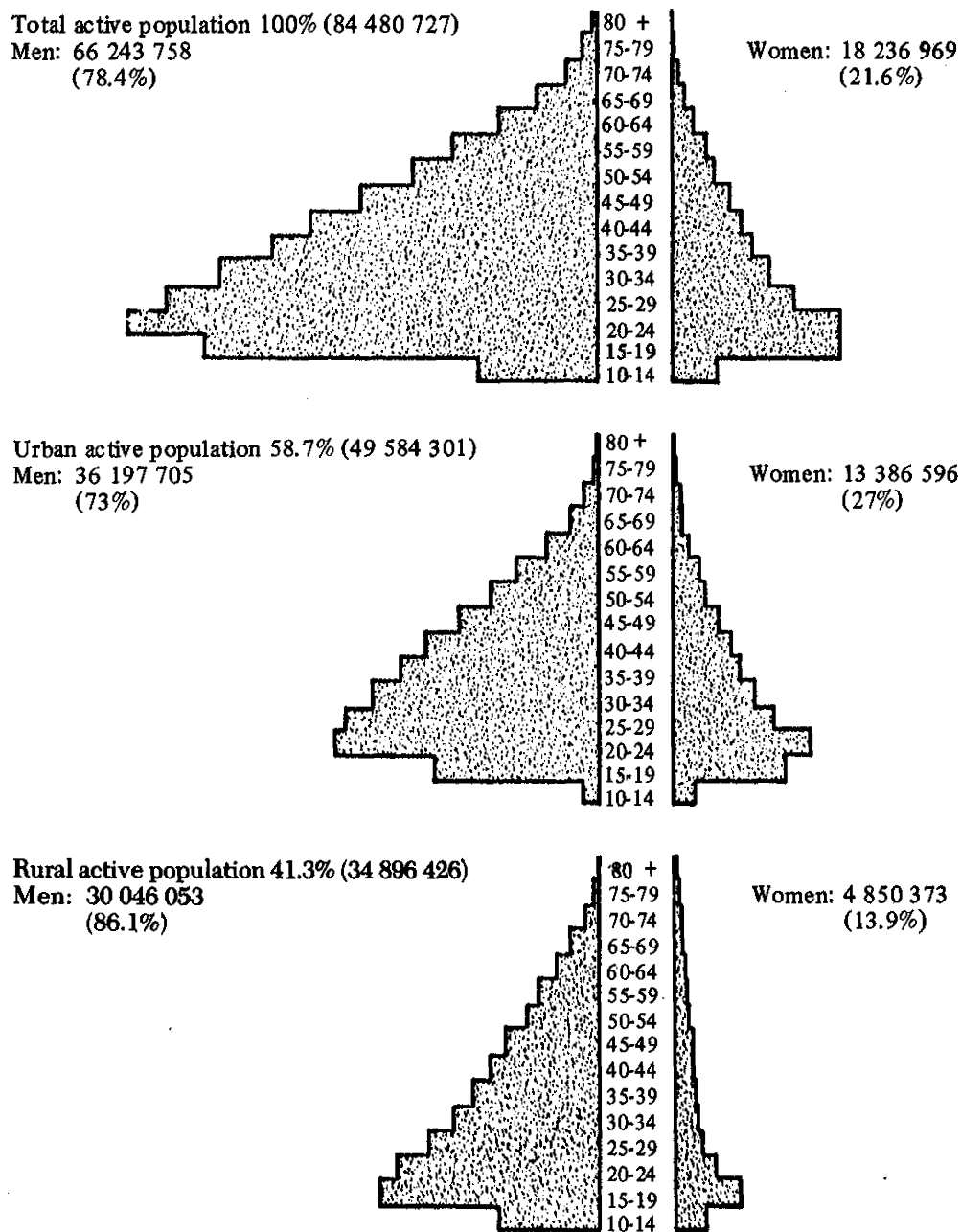
At the national level, the rates of economic participation for adolescents between 15 and

19 years of age will continue to decline until the end of the century, as they have during the past decade (table 2). This process is a natural concomitant of urbanization and of the vast expansion of secondary and higher education which has occurred since the 1960s. In every country of the region, however, economic activity rates will increase over the next twenty years for young people between 20 and 24 years of age (table 3). For the region as a whole this group will continue to expand its participation at a rate slightly above that projected for

⁹ José Medina Echavarría, *Filosofía, educación y desarrollo*, Textos del ILPES, Mexico City, Ed. Siglo XXI (second edition), 1970, p. 248.

Figure 1

LATIN AMERICA: STRUCTURE OF THE ECONOMICALLY ACTIVE POPULATION, 1970



Source: UNESCO/CEPAL/UNDP, project on Development and Education in Latin America and the Caribbean, "La educación y los problemas del empleo", *Informes Finales No. 3*, October 1981, table 18, p. 78.

Table 1

LATIN AMERICA: LABOUR FORCE
COMPOSITION BY BROAD AGE GROUPS
ACCORDING TO AREA AND SEX 1970

(Percentages)

	10 to 24 years	25 years and over
Total both sexes	33.1	50.8
Total men	30.8	52.0
Total women	41.6	46.1
Urban both sexes	29.2	55.3
Urban men	25.8	57.2
Urban women	38.3	50.1
Rural both sexes	38.8	44.3
Rural men	36.8	45.9
Rural women	50.9	34.9

Source: UNESCO/CEPAL/UNDP, project on Development and Education in Latin America and the Caribbean, *La educación y los problemas del empleo*, Informes Finales N.º 3, table 18.

the entire labour force, i.e., just under 3% annually.

Perhaps the most significant increase to be observed at the national level is that of the participation of young women. Indeed, the future expansion of economic activity among youth 20-24 years of age derives almost exclusively from the rise in the economic participation rates of females (table 4). Activity rates for young men experience some decline in all countries of the region. This is again related to the expansion of higher education and merely reflects a delayed entrance due to continued schooling.

Projections for women 20-24 years of age show participation rates increasing substantially in all but one country in Latin America. Since young women are commonly the segment of the labour force most affected by unemployment, the problem of making possible an increase of 35% in these rates for the region between 1980 and 2000 under conditions of extensive overall unemployment and underemployment is undoubtedly one of the major challenges that will be facing Latin America in the present decade. In the case of some countries such as Brazil and Mexico, where these participation rates are expected to rise almost

Table 2

RATES OF ECONOMIC PARTICIPATION
FOR ADOLESCENTS BETWEEN 15 AND
19 YEARS OF AGE, 1970-2000

Country	1970 15-19	1980 15-19	1990 15-19	2000 15-19
Argentina	46.3	42.1	38.6	35.3
Bolivia	44.8	41.4	39.7	34.6
Brazil	43.2	39.8	36.6	34.1
Chile	29.1	26.6	24.5	22.5
Colombia	38.6	33.8	29.9	27.3
Costa Rica	45.7	41.4	37.6	34.4
Cuba	34.0	30.9	28.3	26.0
Dominican Rep.	37.1	34.0	30.6	27.0
Ecuador	46.2	42.4	38.5	35.0
El Salvador	45.7	42.3	38.9	35.6
Guatemala	45.4	42.0	38.2	34.2
Haiti	65.6	61.1	56.0	50.4
Honduras	49.8	46.8	43.2	39.5
Mexico	41.9	38.3	35.0	32.2
Nicaragua	45.4	41.8	38.1	34.4
Panama	46.0	39.9	34.8	31.3
Paraguay	51.0	47.3	43.3	39.5
Peru	31.0	28.7	26.6	24.9
Uruguay	45.2	41.1	37.5	34.2
Venezuela	35.7	32.6	30.0	27.6
<i>Caribbean</i>				
Barbados	45.6	41.9	38.4	35.0
Guyana	38.3	34.3	31.1	28.4
Jamaica	40.3	36.1	32.8	30.5
Trinidad and Tobago	38.0	34.7	31.7	28.7
<i>Latin America</i>	41.5	37.8	34.7	32.0

Source: ILO, *Labour force estimates and projections 1950-2000*, Geneva, 2nd. ed., 1977.

by half, the implications for employment policy are even more far-reaching.

Another policy-related issue which immediately catches one's attention after even a cursory examination of the composition of the labour force is the participation of young people below 14 years of age. Insertion into the labour force for pre- and early adolescents 10-14 years of age is almost insignificant in urban areas (see figure 1), where, as will be seen later, it is largely restricted to marginal groups. Yet in the rural areas of Latin America, almost half of the young people of that age group are economically active. This is related to the very low educational coverage which still persists in cer-

Table 3
 RATES OF ECONOMIC PARTICIPATION FOR YOUNG PEOPLE
 BETWEEN 20 AND 24 YEARS OF AGE, 1970-2000

Country	1970 20-24	1980 20-24	1990 20-24	2000 20-24
Argentina	65.3	66.1	66.5	66.6
Bolivia	59.6	60.2	61.8	64.4
Brazil	58.4	60.0	62.6	66.1
Chile	57.4	59.6	61.9	63.6
Colombia	58.8	58.5	58.6	59.5
Costa Rica	59.6	61.3	63.7	67.0
Cuba	55.8	57.2	59.4	61.3
Dominican Republic	53.5	53.2	53.3	53.8
Ecuador	60.3	61.4	63.3	66.3
El Salvador	59.5	60.0	61.2	63.5
Guatemala	54.3	54.6	54.9	55.7
Haiti	82.0	80.3	78.2	75.6
Honduras	57.6	57.1	57.4	58.1
Mexico	58.3	59.7	61.5	64.3
Nicaragua	59.2	60.1	61.8	64.5
Panama	68.0	66.5	66.1	66.8
Paraguay	62.3	63.7	65.9	69.3
Peru	54.6	55.9	58.2	61.3
Uruguay	67.1	67.8	68.3	68.3
Venezuela	56.3	58.2	60.3	62.0
<i>Caribbean</i>				
Barbados	74.4	75.6	76.7	76.9
Guyana	62.6	63.7	64.7	65.2
Jamaica	75.0	76.4	78.0	80.4
Trinidad and Tobago	65.9	67.0	67.4	67.6
<i>Latin America</i>	59.2	60.3	61.8	64.2

Source: ILO, *Labour force estimates and projections 1950-2000*, op. cit.

tain countries of the region, as well as to the fact that labour force activity of this age group is greatest where the household head is a peasant or independent subsistence farmer. Accordingly, it appears that the structure of production prevailing in household enterprises is one of the fundamental factors explaining why young people under 14 years old work.¹⁰ Differences

exist among countries, but in the smaller nations and those with a large rural population this phenomenon is quite widespread. Such early entry into the labour force is also marked among indigenous groups in traditional agricultural communities, urban marginal sectors, or rural tribal communities, with entry age commonly as low as 4-6 years in the first case.¹¹

¹⁰Marta Tienda, "Economic Activity of Children in Peru: Labour Force Behaviour in Rural and Urban Contexts" in *Rural Sociology*, East Lansing, Michigan, 44 (2), 1979, p. 388.

¹¹Juan Pablo Terra, *Situación de la infancia en América Latina y el Caribe*, Santiago, UNICEF, 1979, pp. 258-269. Elias Mendelievich (editor), *Children at Work*, Geneva, ILO, 1979.

Table 4
 RATES OF ECONOMIC PARTICIPATION OF YOUNG PEOPLE
 BETWEEN 20 AND 24 YEARS OF AGE, BY SEX, 1970-2000

Country	1970		1980		1990		2000	
	Men	Women	Men	Women	Men	Women	Men	Women
Argentina	86.4	43.5	84.4	47.1	82.7	50.0	81.2	51.6
Bolivia	91.0	26.9	88.9	30.8	86.6	36.3	84.3	44.0
Brazil	88.6	28.5	86.3	33.8	84.1	41.1	82.1	50.1
Chile	82.9	31.9	80.8	38.3	79.1	41.5	77.6	49.5
Colombia	84.2	33.9	82.0	34.5	79.9	36.7	78.1	40.4
Costa Rica	91.0	27.9	88.6	33.1	86.3	40.3	84.3	49.0
Cuba	85.8	25.1	83.6	30.3	81.7	36.4	80.1	41.8
Dominican Rep.	93.1	12.9	91.1	14.5	88.9	16.8	86.5	20.1
Ecuador	93.0	27.0	90.7	31.3	88.3	37.5	86.0	45.9
El Salvador	92.1	26.1	90.0	29.5	87.8	34.4	85.4	41.3
Guatemala	92.2	16.0	90.2	18.0	88.0	20.8	85.7	24.8
Haiti	89.7	75.4	88.5	72.2	87.2	68.8	85.6	65.3
Honduras	94.8	19.2	93.1	21.0	91.2	22.3	89.0	27.1
Mexico	92.1	24.3	89.7	28.7	87.4	34.9	85.3	42.6
Nicaragua	92.2	26.0	90.0	29.9	87.7	35.5	85.3	43.2
Panama	92.6	41.9	90.2	41.7	87.8	43.3	85.7	47.0
Paraguay	93.3	31.3	91.3	35.9	88.8	42.5	86.4	51.7
Peru	82.2	26.2	80.1	31.2	78.0	37.9	76.2	46.1
Uruguay	61.8	28.1	88.6	46.4	86.8	49.2	85.3	50.8
Venezuela			81.1	34.8	79.3	40.9	77.9	45.7
<i>Caribbean</i>								
Barbados	90.8	57.5	88.6	62.2	86.8	66.0	85.3	68.1
Guyana	92.4	34.1	90.1	36.9	88.1	40.4	86.5	43.1
Jamaica	88.8	62.8	86.4	65.4	84.3	71.0	82.6	77.9
Trinidad and Tobago	90.8	42.1	88.6	45.5	86.8	48.0	85.3	49.6
<i>Latin America</i>	88.3	30.2	86.2	33.9	84.1	39.1	82.3	45.7

Source: ILO, *Labour force estimates and projections, 1950-2000, op. cit.*

III

Unemployment and underemployment among youth

Employment problems are the most critical and immediate issues for Latin American youth. Open unemployment is particularly acute among youth in urban areas and rates of 15% or more are common (table 5). In Venezuela (1958), 58% of all unemployed were between the ages of 15 and 24, while in major urban areas such as Bogotá and Mexico City from two-thirds to three-quarters of the unemployed are young people. The situation is not primarily

one of adolescent unemployment since, depending on the country, almost half of unemployed young people are in the 20-24 years age group. Available data indicate a varying pattern among the countries according to sex, with some countries registering a much higher incidence of unemployment among young women.

The fact that youth unemployment is the highest (usually two to three times as high as the average for all age groups) is observed

Table 5

LATIN AMERICA: OPEN UNEMPLOYMENT AMONG YOUTH AS A PERCENTAGE OF TOTAL UNEMPLOYMENT, BY SEXES

Country	Unemployment rate				% of total unemployment by sex		
	Age	Both sexes	Men	Women	Both sexes	Men	Women
Colombia (1978) seven cities	15-29	15.3	13.7	17.2	76.6	73.1	80.3
	15-19	23.0	21.7	24.5	30.7	29.9	31.8
	20-29	12.5	10.9	14.4	45.7	43.2	48.5
Bogotá (1978)	15-29	14.0	12.2	16.1	76.7	71.8	81.9
	15-19	23.0	21.6	24.4	31.5	29.6	33.4
	20-29	11.0	9.4	13.1	45.2	42.2	48.5
Mexico (1979) metropolitan area	12-24	13.5	13.3	13.8	66.0	65.4	66.2
	12-19	17.7	17.8	17.6	39.0	37.8	40.8
	20-24	10.1	9.9	10.4	27.0	27.6	25.4
Paraguay (1976) Asunción and surrounding area	12-24	11.8	12.6	11.0	60.6	56.8	70.4
	12-19	12.8	14.7	10.6	34.2	34.1	34.5
	20-24	10.8	10.2	11.4	26.4	22.7	35.9
Uruguay (1978) Dept. of Montevideo	14-24	20.0	15.0	26.5	48.1	51.7	46.0
	14-19	29.5	25.2	35.9	28.0	35.8	23.0
	20-24	13.7	7.9	21.0	20.1	15.9	23.0
Venezuela (1978)	15-24	9.9	10.6	8.1	58.1	56.5	63.5
	15-19	11.8	12.3	10.3	29.1	29.2	28.8
	20-24	8.5	9.2	6.9	29.0	27.3	34.7
Venezuela (1980) Urban areas	15-24	13.6	-	-	58.0	-	-
	15-19	17.1	-	-	27.3	-	-
	20-24	11.5	-	-	30.7	-	-
Jamaica (1975)	14-24	38.0	25.3	52.2	-	-	-
Barbados (1970)	14-24	30.0	22.0	40.0	-	-	-

Source: National household and employment surveys of the respective countries.

in both developing and developed countries alike. But the significance in the case of Latin America is different, since these unemployed young people are very seldom students seeking part-time or vacation employment. Nor does the existence of minimum wage laws seem to be a decisive factor in the high rates of youth unemployment, as is suggested in the case of Venezuela, where after the introduction of a minimum wage in 1974 no significant change in youth unemployment occurred.¹² Two other

findings with policy implications emerge from empirical research on Latin American patterns of youth unemployment: (a) a great deal of the present high youth unemployment is related to very high turnover rates among young people who are able to find only precarious or casual jobs and (b) the burden of youth unemployment is also unevenly distributed across young people, falling heaviest on those from the low socio-economic urban strata, who experience serious and prolonged difficulties in the labour market (table 6).¹³

¹² IBRD, *Current Economic Position and Prospects of Venezuela*, Washington, D.C., Vol. III, 15 March 1977, p. 54.

¹³In the case of youth 15-18 years of age in a low-income area of Santiago, Chile, the unemployment rate in

Table 6
 YOUTH UNEMPLOYMENT ACCORDING TO CONDITION
 OF POVERTY: SELECTED COUNTRIES

(Percentages)

Age	Buenos Aires (1970)		Urban areas of Colombia (1975)		Urban areas of Venezuela (1971)	
	Critically poor	Not critically poor	Critically poor	Not critically poor	Critically poor	Not critically poor
15-19 Total	18.3	13.5	21.3	8.2	9.7	12.6
Men	11.8	7.8	21.1	13.4	14.3	16.8
Women	27.3	21.7	21.6	5.3	1.7	6.2
20-24 Total	21.6	7.3	15.1	6.3	16.6	12.6
Men	25.0	6.1	15.9	7.7	20.4	14.3
Women	16.0	8.7	13.8	5.2	9.8	8.6

Source: Fernando Galofré, *Perfiles de infancia y juventud en Argentina, Colombia, Costa Rica y Venezuela*, CEPAL, August 1981. Tables E-14.

Note: The critical poverty line for urban areas is defined here as twice the indigency line, which in turn applies to those low-income urban families who spend half or more of their total income on food.

Because of its highly visible nature, open unemployment is the indicator most often referred to in discussions of youth employment problems. It is by no means the most significant issue in Latin America, however, where conditions of underemployment comprise the greatest part of the employment problem. Entrance of youth into 'dead-end' jobs and the plight of young people who are not active in the labour force but are not attending school either help to extend critical poverty to future generations. In this context, dead-end jobs are not exclusively low-wage positions, since these can also be transitional jobs. Their distinguishing characteristic is that most often they offer precarious occasional employment with little prospect either of a stable career pattern or useful training and experience. It is this factor,

coupled with the fact that the young people employed in them have little or no skills or education, which distinguishes them from jobs that may offer low wages to youth initially but compensate by increasing their skills.

Marginal youth and those from low income strata are commonly to be found in these circumstances. Data on youth employment in a marginal area of Santiago, Chile, for 1975 show that among young people in the 15-18 year age group who were employed, 43% were either in casual jobs or ones with fluctuating income (table 7). Another 14% worked as domestic servants and 12% in the government Minimum Employment Plan. Only 25% had regular jobs with steady incomes, and of these half worked as messenger boys or maintenance workers. Of those who were reported as not in the labour force, 15% had no activity at all. An analysis of results from the year-end 1979 First Community Census of Uruguay is indicative of the particularly critical situation of urban marginal youth. Of the non-employed youth of both sexes from marginal areas of Montevideo, 100% had either dropped out of school or were more

1975 was 34%; of those without jobs, 56% had held previous jobs. See Margarita Gili and Marta Illanes, *El empleo juvenil en una comuna del Gran Santiago. Un estudio de caso*, Chile, Ministerio del Trabajo y Previsión Social, Instituto Laboral y de Desarrollo Social, pp. 56-57.

than four years behind in their studies by the age of seventeen.¹⁴

The scarce prospects of upward mobility for rural and marginal urban youth are also exemplified in the Brazilian case, where it has been estimated that less than 2% of young people whose fathers are rural labourers can expect to reach higher occupational or income levels. Almost 90% of the children of manual urban workers and 60% of the children of non-manual urban workers occupy positions similar to those of their fathers. Even in the case of slightly better-off families, only 20% of students enrolled in the secondary 'gimnasio' level come from families whose parents hold manual jobs (including those in manual supervisory positions).¹⁵

Young women among the lowest strata face even more obstacles to intergenerational occupational mobility. If only men are consid-

ered it may be seen that a somewhat greater degree of mobility exists than indicated by the global data for Brazil just referred to, and that mobility is mainly to be found at both extremes of the scales of income distribution and social stratification. The upward mobility for low-strata young men indicated here is primarily related to rural-urban migration, which at least provides access to manual jobs in the secondary and service sectors for those coming from the countryside.

In spite of the somewhat greater degree of mobility which may be discerned from a more detailed analysis of the data, the vicious circle affecting low-strata youth remains strong. For these young people the possibilities of upward occupational mobility are still quite limited. Findings from the analysis of Brazil indicate much higher levels of insertion at an early age into the labour force in the case of young people from the poorest families. Eighty-two percent of the children from these families begin working before 14 years of age and 95% are in the labour force before 17 years of age. This contrasts with children from other income categories, of whom 45% had labour force experience before age 17 and only a small minority before 14 years of age.¹⁶

The Santiago, Chile, data show that the participation rate for youth in the 15-18 years group from the same low-income area referred to above was over 80% more than for the same age group in the entire metropolitan area, and the participation rate of young people from families whose total income was less than the legal minimum wage was 45.6%—almost two and a half times that of young people in the same area whose families earned the minimum wage or above.¹⁷

From the preceding information it is clear that family income is a highly influential variable in determining the age of incorpora-

Table 7

PERCENTAGE DISTRIBUTION OF YOUTH
15-18 YEARS OF AGE ACCORDING TO
TYPE OF EMPLOYMENT SITUATION,
LA GRANJA, SANTIAGO (CHILE)

Employment situation	Percentage
Fixed wage employment	25.0
Fluctuating income employment	11.8
Domestic service	14.5
Non-paid family workers	5.3
Occasional workers	31.6
Minimum Employment Plan	11.8
<i>Total</i>	<i>100.0</i>

Source: Gili and Illanes, *El empleo juvenil*, *op. cit.*, table 19.

¹⁴Ernesto Schiefelbein and Reynaldo Franco, *Elementos para la definición de una política social y educativa para comunidades marginadas*, Santiago, Centro Interamericano de Enseñanza de Estadística, 1981.

¹⁵Victor Tokman, *Dinámica de los mercados de trabajo y distribución del ingreso en América Latina*, Santiago, Programa Regional del Empleo para América Latina y el Caribe (PREALC), 1979; David L. Wiñar, *Educación técnica y estructura social en América Latina*, Buenos Aires, UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, 1981.

¹⁶Tokman, *op. cit.*, p. 17.

¹⁷Gili and Illanes, *op. cit.* Other data from Chile show that only 3% of those children whose parents are illiterate finish secondary education, 10% reach eighth grade; 43% of children whose parents have a primary education finish elementary education and 12% secondary education. See Ernesto Schiefelbein and María Grossi, *Antecedentes para un análisis de la educación media en Chile*, Santiago, 1981, Corporación de Promoción Universitaria.

tion into the labour force. Recent studies have concluded that it is also a determining factor regarding the *conditions* of incorporation, particularly with respect to hours worked and continuation of school attendance. In this context a strong contrast has been found between the characteristics of young workers 15-19 years of age in Latin America and their counterparts in developed countries. In the latter countries there are indications of an increasing blurring of the distinction between being in school or in the labour markets as young people search for part-time work, especially in the secondary labour market, while remaining in school.¹⁸ Nevertheless, youth who choose such a school/work option—which, given the structure and functioning of labour markets in developed economies, probably eases their transition into working life—exercise a primary role as students. In Latin American countries such as Brazil and Chile the reverse has been found to be the case; in terms of the hours and conditions of each of these activities such young people are primarily workers who study, usually part-time in evening programmes designed for adult and not youth education needs.¹⁹

Family income level and unemployment of the head of the family are not the only variables affecting a young person's choice between continuing regular daytime schooling or entering the labour market. Studies for Latin American countries have shown a broad set of other variables to be operating. From the perspective of policy foundation it is also significant that the relative influence of all variables changes according to the age of the young person, rural or urban residence and sex. Among the most significant of the other variables are: family structure, including size of the domestic group and the type of headship; social background (particularly the educational level of parents and existence of household enter-

prise); prevalent attitudes of parents and the different incentives received by the young person derived from his relation with them; cultural and institutional restrictions; labour market conditions, and degrees of information as to jobs available.²⁰

In urban areas family income levels, family social background, social values and legal restrictions are determining factors for those approximately in the 10-14 years age group. The implications with regard to public policy are that the primary focus is probably best placed on labour markets and on improving the incomes of household heads or principal earners. From these perspectives, policies concentrating on reducing underemployment would seem to be more effective than providing more job opportunities, particularly for those families that consist largely of children and have little or no unemployed adult labour potential. Such households could also be helped directly by policies aimed at improving children's welfare.²¹

For the 15-19 years age group, the attitudes and the differences in the incentive relationship existing between the young person and his mother or father and the specific characteristics of the educational system take on much greater importance, together with family income level. In the case of young people 20-24 years old labour market conditions, salary levels, perceived opportunity costs, and social and occupational expectations weigh more heavily in their choice between post-secondary schooling and entrance into the labour market. This last

¹⁸OECD, *Youth Unemployment - The Causes and Consequences*, Paris, 1980.

¹⁹José Paulo Zeetano Chahad, *Participação dos jovens na força de trabalho de São Paulo*, Master's Thesis, Faculty of Economics and Administration, University of São Paulo, 1975. In Santiago, Chile, 62% of the students attending adult evening education classes are under 26 years of age, 23% are under 16 years and only 30% have a stable job. *El Mercurio*, Santiago, 23 June 1980.

²⁰Zeetano, *ibid.*, pp. 12-18; Gili, *ibid.*, pp. 34-51; Henry Kirsch, "Employment and the utilization of human resources in Latin America", *Economic Bulletin for Latin America*, Vol. XVIII, No. 1 and 2, pp. 56-57; John Paul Walker, *The Economics of Labour Force Participation of Urban Slum-Barrío Youth in Cali, Colombia: A Case Study*, Ph.D. dissertation, University of Notre Dame, 1970; Marta Tienda, "Economic Activity of Children in Peru", *op. cit.*, pp. 379-391.

²¹Philip Musgrove, "Household Size and Composition, Employment and Poverty in Urban Latin America"; in *Economic Development and Cultural Change*; Fernando Galofré, *Formulación de políticas de infancia y juventud en familias pobres*, paper presented to the CEPAL seminar on policies to achieve a minimum welfare level, 2-6 November 1981; Schiefelbein and Franco, *Elementos para la definición de una política social y educativa para comunidades marginales*, *op. cit.*

point raises the question of the relation between education and employment for youth in a region characterized by long-standing segmentation, social differentiation and rigidity in its social systems. Whatever mobility has existed, it has not been equal for all groups. The access channels have changed and are narrowing in given national situations.

Not even post-primary technical schools give the assurance of higher occupational levels and social mobility for the lower strata that was expected of them. Although technical education has permitted some mobility, the characteristics of the occupational structure maintain a low and relatively unyielding ceiling over youth from low urban strata who have completed these courses of study. Post-primary technical schools may even receive a significant enrollment of middle, and in cases upper-strata youth, as has been discovered in studies for Argentina and Brazil. Conversely the children of skilled manual workers have been found to be under-represented in total secondary education and a very limited proportion of young people from unskilled manual labour families are found in technical schools. In Colombia students with only primary education were differentiated from those with post-secondary technical training or secondary education on the basis of the socio-economic level of the parents, and the data suggest that post-secondary education was associated with the condition of parental modern sector employment.²²

What becomes apparent when dealing

with the problems of youth in Latin America is the need for an integrated long-range strategy that focusses on global structural aspects of youth from the perspective of interaction with the family and on the changing importance of the various intervening variables according to social strata and the age of the young person.

More immediately, it would also appear that such typically short-run measures as lowering the minimum wage for youth, as has been recommended or applied recently in some countries of the region which have applied stabilization measures with concurrent increased open unemployment, are unsatisfactory policy responses. Policy measures must go beyond the mere creation of more employment possibilities, many of which, especially in the case of Latin America, may be expected to be 'dead-end' jobs in the informal sector. In any event, in addition to relative wage costs, non-wage labour costs especially relevant for the formal sector, such as payroll taxes for unemployment insurance, health and other social security benefits, pension contributions, training costs, fringe benefits such as holiday pay, etc., must be considered. If enough empirical evidence can be mustered to show that trends in the relative real cost of youth labour account for part of the present youth employment problem, any desired reduction could be achieved by direct wage subsidies tied to the employment of youth, the payment of apprenticeship allowances, or by negative subsidies such as lowering or abolishing payroll taxes on youth.

IV

Education and the range of employment opportunities for youth

One of the thorniest problems now under intense debate in Latin America is the adequacy of existing educational systems and structures as a meaningful vehicle for preparing youth to participate fully in the development process of

the region.²³ Such participation must be understood in a total sense, first in terms of the intellectual growth *per se* of the individual, then from the perspective of its effects on societal

²² D. Wiñar, *Educación técnica, op. cit.*, pp. 19, 39, 44, 55.

²³ CEPAL, together with UNESCO and UNDP, has sponsored a project on Development and Education in Latin America which, up to its conclusion in November

relations, and finally as a preparation for livelihood. Here only the third will be discussed.

The vigorous expansion of education in Latin America since the 1960s is certainly one of the most striking social changes that has occurred in the region. Previous CEPAL studies have indicated that for the State the concentration of this expansion in secondary and higher education seemed to be the least expensive and least conflictive means of responding to social pressures and postponing decisions over the redistribution of power and wealth, while at the same time generating developmental dividends in terms of improved employment opportunities and labour force productivity. A glance at the present situations in most of Latin America, however, demonstrates that the changes in the region's labour markets stemming from the structurally heterogeneous style of development prevalent until now have had effects on the role of education that raise formidable questions concerning the future viability of its evolution along the lines hitherto pursued.²⁴ Education must be considered within the context of the social and economic processes which have conditioned its development in the region. Moreover, education should not be criticized for not having single-handedly solved problems of unemployment and underemployment which require broad-based structural changes.

At one extreme, the expansion of higher education has gone far beyond the correction of a situation of inequitable and self-perpetuating distribution of opportunities to acquire the qualifications needed and rewarded by the prevailing style of development, and has led to an entrenchment of spurious education leading to deteriorating levels of entry into the labour market. At the other extreme, primary education of such poor quality as to be equally spuri-

ous confirms the marginalization of much of the population from a style of development that in any case has little need for them.²⁵

As regards the problem of open unemployment among youth, comparative data which include detailed age groupings and schooling levels are available only from the 1970 census round. These data indicate that the situation varied from country to country (table 8). Generally, however, it appears that the expected positive relation between higher educational levels and lower rates of unemployment is found to exist. This trend is clearly confirmed at the level of capital city and other urban areas (table 9). Since open unemployment is predominantly an urban phenomenon and not very common in the rural areas, the lack of a stronger association at the national level between low educational levels and high unemployment is not surprising. Once again, at all educational levels, open unemployment for the 20-24 years age group is much higher than for those 25-29 years of age.

A certain stepwise pattern seems to emerge in urban areas (table 9). For men, open unemployment declines gradually with increased elementary schooling. Completed basic education appears to represent a plateau. Those who leave school with incomplete secondary education have somewhat increased difficulties and considerably less unemployment is registered at completed secondary levels. For young women, however, completed secondary education is associated with very high levels of unemployment. The relatively lower unemployment rates among illiterate and poorly educated women probably reflect their high degree of participation in domestic service jobs, cottage industry and other informal sector occupations where education is not a decisive factor. Such jobs are more available in the metropolitan areas and this probably explains the overall high unemployment among women in other urban areas. Educated young women with secondary or higher education encounter more difficulty than their male counterparts in

1981, has published over fifty studies. For the 1980s UNESCO is launching a major effort in this problem area in the form of a principal project on education in Latin America.

²⁴CEPAL, *Structure and Dynamics of Development in Latin America and Their Implications for Education*, document presented at the Regional Conference of Ministers of Education and those Responsible for Economic Planning of Member States in Latin America and the Caribbean, Mexico City, 4-13 December 1979.

²⁵Marshall Wolfe, *Styles of Development and Education: A Stocktaking of Myths, Prescriptions and Potentialities*, UNESCO/CEPAL/UNDP project on Development, and Education in Latin America and the Caribbean, September 1980, p. 3.

Table 8

LATIN AMERICAN: OPEN UNEMPLOYMENT AMONG YOUTH, ACCORDING TO EDUCATIONAL LEVEL, FOR SEVEN COUNTRIES OF THE REGION CIRCA 1970

(Percentages)

Country	Years of study	20 to 24 years		25 to 29 years	
		Unemployed over labour force of same educational level	Distribution of total number of unemployed	Unemployed over labour force of same educational level	Distribution of total number of unemployed
Argentina	00-03	3.05	13.36	1.51	14.44
	04-06	2.53	12.85	1.86	20.22
	07-12	3.44	68.45	1.55	57.51
	13 +	2.33	5.34	1.26	7.83
Chile	00-03	5.43	14.28	4.28	22.58
	04-06	6.04	35.40	4.24	40.30
	07-12	7.83	46.08	3.25	32.27
	13 +	7.27	4.24	2.45	4.85
Colombia	00-03	1.71	23.46	1.58	30.79
	04-06	0.36	35.58	2.58	33.06
	07-12	4.33	35.86	2.57	26.58
	13 +	6.22	5.10	3.80	9.56
Costa Rica	00-03	6.52	25.48	4.77	38.83
	04-06	5.25	45.72	3.56	41.76
	07-12	5.11	25.48	2.18	17.58
	13 +	4.17	3.32	1.18	1.83
El Salvador	00-03	18.31	54.97	13.09	62.09
	04-06	19.74	30.69	12.47	26.26
	07-12	20.66	14.02	9.74	9.78
	13 +	8.33	0.32	10.62	1.87
Honduras	00-03	1.45	28.15	0.80	39.82
	04-06	3.65	40.17	1.86	38.05
	07-12	7.07	30.50	1.93	22.12
	13 +	3.88	1.17	-	-
Mexico	00-03	3.90	39.01	3.61	57.01
	04-06	4.82	39.35	3.42	33.09
	07-12	4.13	14.80	1.81	6.29
	13 +	7.97	6.84	2.11	3.60

Source: UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, *La educación y los problemas del empleo*, Informes Finales N.º 3, October 1981, table 47.

keeping out of the ranks of the unemployment.

For countries such as El Salvador, Honduras, Colombia and Costa Rica, the concentration of unemployed youth among the unskilled

and poorly educated has policy implications for setting priorities which coincide with those of the last section in terms of the need for more schooling. In countries with wider middle and

Table 9
**LATIN AMERICA: OPEN UNEMPLOYMENT
 RATES AMONG YOUTH 20-29 YEARS OF AGE,
 BY SEX AND AREA, ACCORDING TO
 EDUCATIONAL LEVEL**

(Percentages)

Educational level	Total country	Capital	Other urban	Rural
<i>Both sexes</i>				
No education ^a	5.7	9.7	8.9	5.0
1 to 3 years ^a	5.8	8.4	7.8	4.5
4 to 6 years ^a	6.9	8.1	7.6	5.3
7 to 9 years ^b	5.6	5.3	6.2	3.5
10 to 12 years ^b	7.3	6.9	6.4	2.7
13 and over ^b	5.9	5.8	6.3	6.9
<i>Men</i>				
No education ^a	4.9	13.5	8.9	3.7
1 to 3 years ^a	4.9	10.0	7.7	3.3
4 to 6 years ^a	6.3	8.4	7.2	4.2
7 to 9 years ^b	5.9	5.8	6.6	3.2
10 to 12 years ^b	9.2	7.9	7.8	3.9
13 and over ^b	5.1	4.8	5.7	4.7
<i>Women</i>				
No education ^a	8.1	6.3	8.5	8.4
1 to 3 years ^a	8.8	6.3	8.0	10.2
4 to 6 years ^a	8.8	7.6	8.6	10.3
7 to 9 years ^b	4.9	4.3	5.5	4.6
10 to 12 years ^b	4.5	5.3	4.6	4.7
13 and over ^b	7.3	7.5	7.3	9.5

Source: OMUECE 1970, Programa Uniforme, table 20. UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, *La educación y los problemas del empleo*, Informes Finales N.º 3, October 1981, table 29.

^aAverage of 15 countries: Bolivia, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Venezuela.

^bAverage of 6 countries: Argentina, Colombia, Costa Rica, El Salvador, Honduras and Paraguay.

higher educational coverage, such as Argentina and to a lesser extent Chile, the unemployed with some or even complete secondary education account for a high percentage of all the unemployed in the 20-24 years age group.

The vastly expanded supply of people with higher education in such countries has set in motion pressures for 'acceptable' jobs for

which high school graduates and dropouts are in respectively worse positions to compete. The possibilities of upward mobility for secondary graduates have become curtailed with the rising importance of the large private and State enterprises. Varying combinations of capital intensity and technological and administrative complexity limit their possibilities of gaining employment with such employers, who prefer university graduates. On the other hand the substantial increase in the supply of university-educated young people has led them to compete in segments of the labour market traditionally reserved for graduates of secondary education.²⁶ In the case of women it is by now a well-known fact that in the region, as elsewhere a higher educational background is usually demanded of them than of men. Also, the general academic curriculum often imparted to lower-middle and middle-middle strata girls provides them with no marketable skills in a labour market which, in any case, has a narrow range of job opportunities open to them.

In summary, for many countries open unemployment among educated youth did not seem to be the most important aspect of the youth unemployment problem at the beginning of the last decade. It is also important to recall that for some cities of Latin America at the end of the 1960s empirical studies have shown education to be a highly significant discriminatory variable, particularly at the level of completed primary education in relation to poverty.²⁷ Already by the beginning of the last decade those between the ages of 20 and 29 who had less than three years of elementary schooling were practically excluded from jobs in the modern tertiary sector. They had great difficulty in obtaining jobs as drivers and industrial workers, and for the most part are only to be found in agriculture and in the urban informal sector.²⁸

²⁶Wiñar, *op. cit.*, pp. 34 and 55.

²⁷Philip Musgrove and Robert Ferber, "Identifying the Urban Poor: Characteristics of Poverty Households in Bogotá, Medellín, and Lima", in *Latin American Research Review*, Vol. XIV, No. 2, 1979.

²⁸Juan Pablo Terra, *Alfabetismo y escolarización básica de los jóvenes en América Latina*, UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, 1980, tables 42, 43 and 44.

In terms of reducing poverty and improving human welfare, eradication of illiteracy among youth and the expansion of primary school coverage, particularly to young people in rural areas, could hardly fail to be the subject of *immediate priority attention* by governments. As has already been seen, such measures would have to be placed within a broad range of policies designed to improve family income levels and the welfare of children if more than piecemeal or mere showcase effects are to be achieved.

On the other hand, at the beginning of the 1980s as the rural-urban shift continues, young people with a secondary education are no longer only a small percentage of their age group in many countries of the region.²⁹ Enrollments in higher education have increased rapidly in the region, and the term 'massification' has been applied to this process in many countries, where over 10% of the 20-24 years age group are enrolled in university.³⁰ Youth are now confronted by increasing tension of maladjustment between higher educational credentials and inadequate availability of middle and upper-strata employment opportunities. Although the current recessionary economic climate certainly does not help to reduce the problem, the basic reasons are more structural in nature, as better-educated young people for some years now have been finding that their credentials do not earn the privileges, social mobility or income levels anticipated. At the same time that a greater portion of 20-24 year-old young people in middle-strata occupations and above have higher education, relatively fewer of the better-

educated youth have been able to gain employment at these levels (table 10).³¹

In the modern or growth sector numerous changes of both a social and economic nature have conditioned the educational requirements for entry into such jobs. Education now tends to act as a proxy variable for the social and behavioural traits which indicate the adaptability, learning potential and discipline required in modern, hierarchical and bureaucratic enterprises. The presence of a rapidly expanding educated labour force has produced a situation in which the demands for more years of education are outpacing the rate at which the real cognitive requirements for accomplishing formal sector jobs are expanding. In the industrial sector, recruitment criteria have undergone substantial modifications and the mere number of years of schooling appears increasingly important. Although in some cases of technical advance jobs have become more complex and require higher scientific-technical skills, in others the tasks have been simplified, are merely repetitive, and require primarily the ability to accommodate oneself to the work rhythm imposed by the machine. Furthermore, the assumption that formal education is the instrument which effectively provides the necessary skills for satisfactory performance in the new jobs created through technological development has been seriously questioned. In the case of Argentina, for example, it has been shown that in the industrial sector the same kind of jobs are carried out by individuals with the most diverse educational levels. On the other hand, a given type of education (in this case, technical) qualifies a person for access to a wide variety of jobs, the majority of which have no relation to the formal training received.³²

As a result of the poor interaction between educational output by type of skills and the real

²⁹In Ecuador in 1965-1966, only 13% of the 15-19 years age group were enrolled in secondary education, but in 1977 over 30% attended secondary school, while university enrollment had grown from 3% of the 20-24 years age group to 12% in 1975. See Gladys Pozo de Ruiz and Ernesto Schiefelbein, "Los problemas de la expansión acelerada: el caso del desarrollo del sistema educacional del Ecuador", in *Estudios Sociales* (Santiago, Chile), No. 26, fourth quarter of 1980, table 5.

³⁰In 1978 the group included Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Panama, Jamaica, Uruguay and Venezuela. See UNESCO, *Statistical Yearbook, 1980*. Also see Jaime Rodríguez, *El concepto de masificación*, UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, *Fichas* No. 4, 1978.

³¹ See also Carlos Filgueira and Carlo Geneletti, *Estratificación ocupacional, modernización social y desarrollo económico en América Latina*, CEPAL, Social Development Division, November 1978, pp. 163-175.

³²Juan Carlos Tedesco, "Algunas características de educación e industrialización en América Latina", paper presented to the first seminar of the UNESCO/CEPAL/UNDP project on Development and Education in Latin America and the Caribbean, Quito, 13-17 September 1977; Wiñar, *Educación técnica*, op. cit.

Table 10
**CHANGES IN THE INSERTION OF YOUTH 20-24 YEARS OF AGE
 WITH 13 YEARS AND MORE OF EDUCATION INTO MIDDLE
 AND UPPER STRATA OCCUPATIONS, 1960-1970**

(Percentages)

Countries	1960		1970	
	% of middle/ upper strata 20-24 year old jobholders with 13+ years of education	% of 20-24 year old group with 13+ years of education in middle/ upper strata jobs	% of middle/ upper strata 20-24 year old jobholders with 13+ years of education	% of 20-24 years old group with 13+ years of education in middle/upper strata jobs
Argentina	12.6	76.4	19.7	76.7
Chile	7.1	93.1	12.1	83.8
Colombia	3.7	92.4	7.9	84.6
Costa Rica	16.2	92.2	14.8	89.9
Mexico	2.4	82.5	10.8	69.0

Source: OMUECE 1970, Special Programme, table 4;
 OMUECE 1960, Special Programme, tables 2 and 3.

technical needs of the economies, formal educational requirements unrelated to substantive work requirements are used as screening devices, thus reserving the more desirable jobs for the social strata whose children are able to acquire these credentials. It is not yet entirely clear how schooling differentiates labour. Number of years of education is certainly a prime consideration but the relationship is not one-dimensional and linear. A diploma of completed secondary school education, for example, opens the door to non-manual occupations; achievement of literacy brings obvious advantages to many informal sector workers and minifundistas, and graduation from a prestigious university is of prime importance in those countries where the number of institutions of higher education has mushroomed in the last two decades. But to the extent that middle and higher education expand more rapidly than the supply of appropriate jobs, higher educational barriers are continually applied in respect of lower-status clerical jobs and even manual occupations. The relative 'over-expansion' of

middle and higher education has been accompanied by cosmetic changes in the names and legal status of occupations, reflected in a differential growth of urban middle and upper occupational strata whose real meaning in terms of improved employment levels and productivity is thereby obscured.³³ 'Workers' are reclassified as 'employees' or 'technicians'; sub-professional specializations receive professional titles. This trend, together with the fact that educational supply creates its own demand, has already had significant consequences for the expansion of public bureaucracies whose contribution to the development process has been questioned. For example, it has been estimated that in Brazil the public sector has been absorbing almost 50% of total 'white-collar' employment in the non-agricultural sectors, while between 1970 and 1975 public sector employment in Argentina ex-

³³ CEPAL, *Desarrollo humano y cambio social y crecimiento en América Latina, Cuadernos de la CEPAL Series No. 3*, Santiago, 1975, pp. 31-36 and 46-48.

panded at an annual rate of 5.6% compared with 0.9% in the period 1960-1970.³⁴

Yet another problem is that the rapidity of growth in the number and enrollments of middle and higher institutions often results in a general deterioration of the quality of instruction, with a wide gap between the quality or prestige of the titles issued by different institutions. To the extent that formal educational qualifications for employment become divorced from work needs, there is no external check on the dilution of quality. Likewise, to the extent that employers seek real technical qualifications, they give credit to the diplomas of only a few elite institutions, and increasingly support

private institutions so as to obtain a dependable supply.

Consequently, an increasing proportion of better-educated young people in Latin America are finding themselves barred from entering jobs of the social prestige and income level that they had expected. Meanwhile, the possibilities for the absorption of the output of higher education graduates into bureaucratic jobs which provide some degree of status, even if not satisfying salary aspirations, may be reaching their limit. Various governments have begun to react by restricting university enrollments, while at the same time anti-bureaucracy campaigns have made inroads on this sector of the labour market. The foregoing elements form the basis of yet another source of future social tension as a higher proportion of educated youth, continually increasing through demographic growth and the momentum of middle-strata expansion, confronts the mismatch between their expectations and the level of occupations open to them.

³⁴Paulo Renato Souza, *La segmentación del mercado de trabajo urbano y las disparidades de salarios en economías subdesarrolladas*, Santiago, PREALC, 1977, p. 32; Juan José Ilach, "Estructura ocupacional y dinámica del empleo en la Argentina: sus peculiaridades 1947-1970", in *Desarrollo Económico*, 17:68, Buenos Aires, January-March 1978.

Energy demand in Chilean Manufacturing

*Larry Willmore**

The Chilean experience following the 1973 increase in world energy prices is marked by wide inter-industry differences in changes in the energy intensity of production. Some industries, such as wood and furniture, appear to have adjusted quickly to relative price changes by decreasing their consumption of energy per unit of output, whereas others, such as industrial chemicals and non-electrical machinery, were more energy-intensive in 1977 than in 1967. The purpose of this paper is to employ regression analysis to explain this inter-industry variation as a function of four variables: change in industry output, substitution of electricity for other fuels, change in employment of labour, and the survival of establishments. The first section of the paper provides a brief description of the available data on energy consumption and manufacturing production in Chile. The specific variables used and the estimated equations are described in the next two sections. The main empirical findings are summarized in a concluding section.

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I

Data

The manufacturing sector now accounts for more than a quarter of total energy consumption in Chile.¹ Between 1967 and 1977 annual energy consumption in this sector increased by 31%, with the greatest increase occurring in electricity (see table 1). The average price of electricity for industrial use actually fell in real terms over this period of time by more than 20%, while the price of petroleum products increased by more than 50% (see table 2). Relative price changes thus provided Chilean Manufacturers with a strong incentive to increase consumption of locally-produced electricity and economize on imported oil.

Manufacturing output grew much more slowly than energy consumption in the 1967-1977 period. According to official government statistics, manufacturing production fell 25% in the 1975 recession and regained its 1967 level in 1977. The production index compiled by the manufacturers' association (SOFOFA) shows a similar fall in 1975, but indicates recovery in 1977 to a level of output 15% greater than that of 1967. Regardless of the production index one uses, however, there has thus been a clear increase in energy consumption per unit of output in Chilean manufacturing.

In this paper the SOFOFA production index is used because both it and the energy consumption statistics are based on the revised version of the International Standard Industrial Classification (ISIC Rev. 2). These data show that the ratio of energy consumption to gross manufacturing output increased by 13.9% between 1967 and 1977. This estimate of the increase in the energy/output ratio is biased downwards for two reasons. First, it is based on the higher of two available indices of real output. Secondly, energy consumption by small establishments employing fewer than ten persons is included in the 1967 data but excluded from those for 1977. This downward bias, coupled with the increase in the real price of

¹Total energy comprises commercial fuels and firewood. For data on economy-wide energy consumption, see Comisión Nacional de Energía, *Balance de Energía 1960-1968* (Santiago, Chile, 1980).

petroleum products, is consistent with the fact that energy expenditures as a percentage of gross manufacturing output, both measured in current prices, nearly doubled from 2.2% in 1967 to 4.2% in 1977.

For individual industries, there were mixed changes in the energy intensity of production between 1967 and 1977. Seventeen of the three-digit industries in table 3 show an increase in the energy/output ratio whereas eleven industries show a decrease. At this level of disaggregation, very little of the 14% increase in the overall energy/output ratio can be explained by changes in industry mix, i.e., by an increase in the output of energy-intensive industries relative to other industries rather than a general increase in energy/output ratios within each industry. If energy/output ratios are held constant at their 1967 levels, changes in industry mix account for only about one and a half percentage points of the observed increase in the energy intensity of Chilean manufacturing.

Table 1

CHILE: ENERGY CONSUMPTION IN MANUFACTURING, CLASSIFIED BY TYPE OF FUEL, 1967 AND 1977^a

	Thousands of tons of coal equivalent		Percentage change
	1967	1977	
Electricity	904	1 549	71.3
Coal	484	386	- 20.2
Petroleum products	1 268	1 552	22.4
Natural gas	24	21	- 11.8
Wood and other	178	227	27.5
Total	2 858	3 735	30.7

Source: Calculated from data in Instituto Nacional de Estadísticas (INE), *IV Censo Nacional de Manufacturas* (1967) and corrected data in INE, *Industrias Manufactureras* (1977).

^aData for 1967 refer to establishments employing five or more persons while those for 1977 refer to establishments employing ten or more persons, hence changes in energy consumption are underestimated.

Table 2

CHILE: AVERAGE FUEL PRICES PAID BY MANUFACTURING FIRMS IN 1967 AND 1977

(Escudos per thousand tons of coal equivalent)

	Current escudos per thousand TCE		1965 escudos per thousand TCE ^a		Percentage change
	1967	1977	1967	1977	
Electricity	222	1 545 000	141	111	- 21.4
Coal	136	1 307 000	86	93	8.9
Fuel oil	121	1 691 000	77	121	57.6
Diesel oil	166	2 237 000	105	160	52.1
Gasoline	262	3 471 000	166	248	49.6
Kerosene	146	2 218 000	92	159	72.1
Natural gas	449	3 501 000	284	250	- 11.8
Firewood	146	1 478 000	92	106	14.6

Source: Calculated from data in INE, *IV Censo Nacional de Manufacturas* (1967) and corrected data in INE, *Industrias Manufactureras* (1977).

^aNominal prices deflated by the implicit deflator corresponding to the index of gross value of manufacturing output, which is 158 for 1967 and 13 982 for 1977 (1965 = 100).

II

Variables used in the regression analysis

Change in energy intensity (E)

The dependent variable is the energy/output ratio in 1977 divided by the ratio for the same industry in 1967. This is denoted as E and is listed in the last column of table 3. With the exception of electricity, different fuels have been aggregated on the basis of their inherent thermal content in the calculation of these ratios. Electricity has a value far beyond that of its thermal energy alone, so the amount of fossil fuel required to produce electricity in thermal plants of average efficiency (600 kg of coal equivalent per thousand KWH) was used as a conversion factor in lieu of the thermal energy available from electricity (123 kg of coal equivalent per thousand KWH).²

Change in output (Q)

Production growth in each industry is measured by the ratio of gross output in 1977 to gross output in 1967, both measured in 1967 prices. Only eleven of the 28 three-digit industries registered a larger output in 1977 than 1967. Since an expanding industry is more apt to adjust to higher energy prices by investing in energy-efficient plant and equipment than is a stagnant or declining industry, one can expect a negative coefficient for this variable.

There is another important reason to expect a negative coefficient. The implicit deflator for domestically-produced manufactured goods in 1977 was nearly 9 000 times that of 1967. Price inflation of this magnitude introduces unusually large errors into estimates of real output. These measurement errors enter the denominator of the dependent variable, giving rise to a negative but spurious correlation between production growth and changes in energy intensity. In other words, overestimation of the growth in real output of an

industry leads to underestimation of the increase in its energy/output ratio and vice versa.

Substitution of electricity for other fuels (S)

This variable is measured as the ratio of the 1977 proportion of electricity in total energy consumption to the 1967 proportion. Eighteen of the 28 three-digit industries increased their consumption of electricity relative to other fuels. For the sector as whole, electricity as a percentage of total energy consumption increased from 32% in 1967 to 41% in 1977.

Assuming that electricity will by its nature be used more efficiently in a physical sense than other fuels, increased consumption of electricity relative to other fuels should be associated with a decrease in the energy/output ratio. Four types of substitution of electricity for other fuels are possible. First, in broadly defined industries there is ample scope for changes in product-mix, i.e., for shifts into electricity-intensive products and away from products relatively intensive in other forms of energy. Secondly, there may be direct substitution, such as the change from a diesel engine to an electric motor. Thirdly, there may be a shift away from self-generation to the outside purchase of electric power which will produce recorded gains in energy efficiency as small, inefficient thermal generators are replaced by power from large thermal and hydro plants. Fourthly, and most importantly, electricity consumption is a proxy for mechanization. Although there is a well-known *positive* correlation between mechanization and energy intensity,³ in a period of rising energy prices in-

²See United Nations, *World Energy Supplies 1973-1978* (New York, 1979), p. xvi.

³See, for example, J.S. Wabe, "Energy Expenditure in Sectors of Manufacturing", *Energy Economics* 3:3 (July 1981), pp. 178-81 for evidence that capital-intensive industries tend to be energy-intensive. For 28 Chilean industries in 1967, the rank correlation (Kendall's tau) between energy output ratios and capital intensity is .593 when capital intensity is measured as installed horsepower per employee and .598 when it is measured as electricity consumption per employee. Both coefficients are highly significant.

Table 3
CHILE: ENERGY/OUTPUT RATIOS FOR 28 MANUFACTURING INDUSTRIES,
1967 AND 1977

ISIC	Major products	Energy/output ratios ^a		
		1967	1977	1977/1967
311-312	Food	110.6	114.1	1.032
313	Beverages	76.0	59.6	0.784
314	Tobacco	8.0	7.7	0.953
321	Textiles	124.1	127.0	1.023
322	Clothing	22.4	37.7	1.683
323	Leather	111.6	97.7	0.875
324	Footwear	19.5	41.4	2.129
331	Wood	153.2	63.9	0.417
332	Furniture	33.1	18.7	0.564
341	Pulp and paper	425.2	782.5	1.840
342	Printing	37.5	68.3	1.821
351	Industrial chemicals	299.5	960.2	3.206
352	Other chemicals	61.2	38.0	0.620
353	Petroleum refineries	82.8	36.1	0.436
354	Petroleum and coal products	71.3	121.7	1.708
355	Rubber products	101.4	115.5	1.139
356	Plastic products	75.8	89.0	1.174
361	Pottery	384.0	560.1	1.459
362	Glass	558.5	435.5	0.780
369	Cement	577.0	1 016.0	1.761
371	Basic iron and steel	497.2	590.9	1.188
372	Copper	153.3	144.0	0.940
381	Metal products	69.4	79.6	1.146
382	Non-electrical machinery	79.1	234.0	2.957
383	Electrical machinery	38.9	69.6	1.791
384	Transport equipment	46.9	66.9	1.425
385	Professional and scientific equipment	74.7	71.9	0.962
390	Other manufactures	37.4	21.9	0.585
	<i>Total manufacturing</i>	<i>134.8</i>	<i>153.5</i>	<i>1.139</i>

Source: Calculated from the index of industrial production prepared by the Sociedad de Fomento Fabril; INE, *IV Censo Nacional de Manufacturas* (1967) and, with corrections, INE, *Industrias Manufactureras* (1977).

^aDirect energy consumption in tons of coal equivalent per million 1967 escudos of gross production.

creased mechanization could well result in increased energy efficiency, and a *negative* correlation could emerge between *changes* in mechanization and *changes* in energy output ratios.

Change in employment (L)

The employment variable used is the average number of employees in 1977 divided by the average number in 1967 excluding, in both cases, establishments with less than ten employees. Only five industries recorded an in-

crease in employment between 1967 and 1977; for the manufacturing sector as a whole, employment in establishments with ten or more employees declined from 327 000 to 247 000 persons.

In view of the drastic reduction in both labour union power and import tariffs in Chile after 1974, a fall in employment is likely to reflect, at least in part, efficiency gains and the removal of redundant labour. The data suggest, in fact, that change in the level of employment is not a good predictor of change in the level of production: the simple correlation between

employment changes (L) and output changes (Q) is only .27, which is not significantly different from zero at the 5% level in a one-tailed test, and the rank correlation (Kendall's tau) is .15, which is even less significant. For this period in Chilean history, employment changes are thus likely to be a good proxy for efficiency changes. Increased efficiency implies decreased energy intensity in a period of increasing energy prices, so a positive coefficient is expected for this variable.

Survival of establishments (N)

Establishment survival is measured as the ratio of the number of establishments with ten or more employees in 1977 to the number with ten or more in 1967. The number of establish-

ments fell sharply in all industries, with a reduction from 6 350 to 2 150 for the sector as a whole. It is possible that these figures exaggerate the mortality rate of manufacturing establishments, for 1967 was a complete census whereas 1977 was a survey which may understate the number of smaller plants. An additional 5 118 establishments employing between five and nine persons were registered by the 1967 census but there are no data on the number of establishments of this size category in 1977. The expected sign of the coefficient of the establishment survival variable is positive, on the assumption that a reduction in the number of firms in an industry is likely to reflect industry rationalization and efficiency gains, including gains from the improved use of energy inputs.

III

Empirical results

The simple correlation coefficients between changes in energy intensity and each explanatory variable are presented in table 4. All of the coefficients have the expected sign and all are statistically significant at customary levels of confidence.

An ordinary least squares regression with all variables measured in natural logarithms

produced the following result (t-statistics are in parentheses):

$$\begin{aligned} \ln E = & .529 \ln Q - .854 \ln S + .693 \ln L \\ & (-4.97) \quad (-3.94) \quad (3.41) \\ & + .158 \ln N \quad R^2 = .81 \\ & (.87) \end{aligned}$$

Table 4

SIMPLE CORRELATION COEFFICIENTS: CHANGES IN ENERGY INTENSITY AND VARIOUS INDUSTRY CHARACTERISTICS, 1967-1977

Industry characteristics	Correlation with changes in energy/output ratios	
	Coefficient	t-statistic
Change in output (Q)	-.644 ^a	-4.29
Substitution of electricity for other fuels (S)	-.648 ^a	-4.33
Change in employment (L)	.319 ^b	1.72
Survival of establishments (N)	.397 ^b	2.21

Note: All variables are logarithms; the units of measurement are described earlier in the text.

^aStatistically significant at the .01 level.

^bStatistically significant at the .05 level.

All coefficients in this equation are significant at the .01 level with the exception of $\ln N$. The insignificance of $\ln N$ is a product of collinearity between that variable and $\ln L$ ($r = .62$).

The significant correlation between the employment variable (L) and the establishment survival variable (N) is not surprising, for the removal of redundant labour in an industry often occurs via the removal or merger of inefficient firms. When $\ln L$ is dropped from the regression, the coefficient for $\ln N$ increases and becomes highly significant:

$$\ln E = .761 - .653 \ln Q - .494 \ln S + .563 \ln N$$

(-3.37) (-3.46) (3.42)

$$R^2 = .71$$

Similarly, the size and significance of the coefficient of $\ln L$ increases when $\ln N$ is deleted from the equation:

$$\ln E = .396 - .889 \ln Q - .465 \ln S + .808 \ln L$$

(-5.35) (-3.93) (5.29)

$$R^2 = .80$$

In all of the calculations up to this point, the conversion factor for electricity has been

based on the amount of coal required to produce electricity in thermal plants of average efficiency. If we follow the alternative procedure of converting electricity on the basis of its inherent thermal content, all energy/output ratios are lower and the coefficient of $\ln S$ will increase, for substitution of electricity for other fuels will have, for strictly arithmetic reasons, a stronger negative effect on measured energy/output ratios. The regression equation becomes:

$$\ln E^* = .548 - .757 \ln Q - .714 \ln S^* + .698 \ln L$$

(-4.19) (-9.04) (3.15)

$$+ .153 \ln N \quad R^2 = .88$$

(.77)

where the asterisk (*) refers to the system of lower weights for electricity relative to other fuels. The absolute value of the coefficient of $\ln S^*$ is fifty per cent greater than that of $\ln S$, but the size and significance of the other regression coefficients are affected very little by this substantial change in the conversion factor for electricity.

IV

Conclusion

Estimates of real output changes in Chile are subject to wide margins of error as a result of the rapid price inflation experienced in that country, but it would appear that 14% would be a conservative estimate of the increase in the energy/output ratio for Chilean manufacturing between 1967 and 1977. This increase in the energy/output ratio for the sector as a whole is due almost entirely to changes in energy intensity within each of the 28 three-digit industries rather than to changes in industry mix. Regression of variations in energy/output ratios on four independent variables shows clearly that decreased energy intensity of production is associated with increased output, a shift away from other fuels to electricity, a decrease in the amount of labour employed, and a reduction in the number of establishments in an industry. The significance of the last two variables is undoubtedly due to the industry rationalization that took place in Chile after 1974 as a result of a drastic reduction in both import tariffs and trade union power.

Appendix

COEFFICIENTS USED TO CONVERT
FUELS INTO TONS OF COAL
EQUIVALENT

Fuel	Coefficient
Electricity (1 000 KWH)	0.6
Coal and coke	1.0
Fuel oil (tons)	1.5
Fuel oil (cubic metres)	1.4175
Diesel oil (tons)	1.557
Diesel oil (cubic metres)	1.308
Gasoline (cubic metres)	1.168
Kerosene (cubic metres)	1.28
Liquefied petroleum gas (tons)	1.729
Liquefied petroleum gas (cubic metres)	0.951
Natural gas (1 000 cubic metres)	0.571
Wood (tons)	0.5

Source: Calculated from data in Comisión Nacional de Energía, *Balance de Energía 1960-1978* (Santiago, Chile, 1980), Annex A.

On the history and political economy of small-farmer policies

*David Dunham**

This paper tries to show that the recent spate of small-farmer policies fit an identifiable historical pattern, and that they are concerned with restructuring the 'traditional' agricultural sector (or a certain part of it) in order to achieve the necessary food production and political stability for accumulation to continue more or less unabated. In this respect, these policies are based on the old philosophy that a peasant with his small plot of land and his basic means of subsistence is likely in general to prove a conservative force, to serve the interests of the major capitalist groups, and to constitute an important element in the foreign policy considerations of both the poor and the more advanced capitalist countries.

This paper consists of three parts. Part I examines small-farmer policies in a historical perspective and seeks to show that these policies are by no means the new phenomena that they are sometimes supposed to be, that their history has been intrinsically connected with the contradictions in particular societies, and that it rarely bears out the abstract concern that is placed in them. Part II deals with contemporary policies and argues that, far from constituting a radical break with the past, 'small-farmer' policies have tended on the whole to be extremely conventional, preoccupied not so much with the needs of the poor as with the needs of political stability and economic expansion of the capitalist sector. The final part attempts to draw the various threads together and to show how the interests of capitalist groups are strengthened by small-farmer programmes and their elaboration through conventional planning procedures.

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Introduction

Since Robert McNamara's Nairobi speech in September 1973, concern with 'small farmers' and 'the rural poor' has become a standard component of the policy recommendations and research programmes of international development institutions. Rural poverty suddenly appeared a respectable topic, and an important one. With the sharp rise in world food prices in the early 1970s and the increased cost of imported fertilizers in the wake of the petroleum price hike of 1973, the problem of food supplies and of feeding their populations was brought home to Third World countries in a forceful way.

And yet, for all the familiar emotive inclinations for preferring 'family farms' to say, 'agribusiness', the 'small farmer' was to prove to be an elusive analytical category. Writings of the World Bank and similar institutions set out as though it was self-evident what a 'small farmer' was. He (and quite clearly it was 'he' and not 'he or she') was abstracted from the agrarian context of real situations. There was little concern with the historical context in which these people found themselves, or with the political environment in which these 'small-farmer' policies might (or might not) be applied. Just how much of an impediment ownership patterns, tenure arrangements and local power structures had proved to be in the implementation of 'equity-oriented' small-farmer policies was lost in the optimistic tone of the World Bank's presentation. The small farm was labelled a target for development aid, but there was such a difference in the meaning of farm size from country to country (or from province to province) that it was very difficult in practice to come to terms with the abstract notion of aiding 'the small producer'.

This was one problem. A second, more fundamental problem that partly explained the stand that these institutions took was the paradigm in the light of which their discussions were cast. This influenced their perception of the small farmer's problem and of the kinds of behaviour patterns they considered to be relevant; it shaped the way that they looked at the planning process, and the kind of rural community that they were likely to create. It was a paradigm with neo-classical (and neo-Malthu-

sian) overtones which, for all their references to structural change, placed its emphasis fairly and squarely on questions of efficiency as measured in terms of purely quantitative notions such as the amount of inputs used, the volume of credit and other financial resources that were made available, and the size of the farm.¹

The problem facing these Third World countries (at least in the rural sphere) was seen as one of producing sufficient food to meet the needs of a rapidly increasing population. To achieve this, higher priority was to be given to small producers (defined as people working less than 2 hectares of land), organised on the basis of (nuclear) family units and oriented squarely towards sales for the market. Given the very real limits on cultivable land (especially in Asia) and the lag in employment creation in other sectors, small-farmer production was, in this view, not only attractive but could well be efficient when measured in terms of criteria such as employment and output per unit of land.² Seen in this light the issue became one of determining the correct blend of inputs and services to ensure a sustained increase in productivity in the small-farm sector, and this was automatically considered to hinge on "access to

new technology and the capital to utilise it" and on "the need for new and improved service systems to support a modern system of agriculture".³ What was at stake was "the modernisation and monetarisation of rural society" and its rapid incorporation into the capitalist economy.⁴

This being so, a pertinent question which immediately arises is how this 'incorporation' was to be carried out—how small-farmer policies related to macro-strategies, what kinds of strategies they were in practice promoting, the nature of the planning process by which they were implemented, and the nature of the agrarian society that they were likely to create. One of the sustaining theses of this paper is that small-farmer policies must be seen in their historical context and analysed in relation to macropolicies and to the process of capital accumulation taking place at a national and an international level. It will be argued that it is this which determines to a large degree where and how far the 'traditional' small-farm sector remains intact, where and in what ways it is strengthened or re-structured, and where it is replaced by larger units of agricultural production.

I

Discussion on small-farmer policies often overlooks the fact that they have been present in thinking on agricultural and rural development at least since the Second World War, and in most parts of the Third World since long before that. The small-farm sector was an important element in the Russian debates of the 1920s and in the whole question of the co-operative movement in the 1930s; independence move-

ments of Africa and Asia looked for much of their support to the peasant producer, and in Latin America the land reform programmes of liberal and, leftist parties contained similar concerns. It is true that they involved rather different notions as to the nature and potential role of the small-farm sector, but it is also undeniable that there exists a considerable body of evidence and historical experience in which it proved (in one sense or another) of strategic importance.

It is worthwhile looking at this experience and asking ourselves what insights are to be gleaned from it that can help in interpreting the upsurge of small-farm policies in the last five to ten years. In doing so, it would seem particular-

¹Behind this lay the notion that an agrarian society in which everyone had a plot of land of more or less the same size would be 'egalitarian'. Where land is the main factor of production this may be the case. But once access to capital and modern inputs becomes important, equal-sized plots are unlikely to ensure an egalitarian structure. Farm size was in this sense a quantitative notion.

²The underlying philosophy stretches back further, at least to the beginning of McNamara's presidency of the World Bank Group in 1968, if not before. See IBRD, *World Bank Operations: sectoral projects and policies*, Baltimore, 1972.

³IBRD, *The Assault on World Poverty*, Baltimore, 1975, pp. 5 and 10.

⁴*Ibid.*, p. 3.

ly apt to try and analyse the role which small farmers have played (or have been expected to play) in different strategies of economic and political development. In this section an attempt will be made to outline some of the main types of small-farmer policies that have been introduced in the non-socialist world and in Third World countries in the periods roughly before and after 1950. The choice of year is little more than one of convenience: more relevant, perhaps, is that we will look at small-farmer policies first in the context of what is labelled a 'colonial export economy' and then of one that placed greater weight on industrialization.

1. *Small-farmer policies before 1950*

Prior to the 1939-1945 war (and even in the postwar period in many parts of the world), the majority of Third World countries could still be described as having a 'colonial export' economy based on the export of primary products to Europe and North America and on the import of metropolitan manufactures. Government policies for the expansion of these economies placed their emphasis on infrastructural development to facilitate the production and evacuation of export commodities, to distribute imported goods to different parts of the country, and to meet the local manpower needs of an expanding economy. In some cases (not only in Latin America but also, for example, India) industry was already a substantial sector of the economy. However, such countries were still very much an exception, and the prevailing ideology was bound up with the colonial concept of export-led growth.

And yet, even in this context, serious concern with small-farmer production often existed. It was a concern that was sometimes short-lived, and at times very much of secondary importance. After all, almost nothing was known of the structure and needs of 'traditional agriculture'; it was rarely the subject of continuous technical research, and the efforts that were made to improve (or rather to change) it, were in general crude.⁵ The enclosure of land for

large-scale commercial production had adverse effects on a great many village communities, depriving them of land and leading to the proletarianization of the village poor.⁶ Weaker producers were pushed to more marginal lands, and more generally small farmers found themselves confronted with tenure structures, national policies and legal institutions which were heavily biased in favour of capitalist groups.⁷

This aspect of the colonial situation and of capitalist expansion in Latin America is now well documented and it is frequently cited. And yet, notwithstanding this point, the fact remains that even in the context of these export-oriented macrostrategies and of the rather conservative political regimes that tended to support them, small-farmer policies were considered, and were in some cases preferred and

nature, and the second, associated with agricultural stations, was intended to show the 'traditional' farmer what could be achieved. Colonial governments failed to see pasture and reserve lands as an essential part of existing production systems, especially in areas where shifting agriculture or nomadic herding were the rule. Agricultural stations were conceived as demonstration centres, and they were more concerned with placing 'native agriculture' on a 'scientific basis' than with helping the peasant producer in his own situation.

⁵For evidence of this see the *Report of the Kandyana Peasantry Commission*, Colombo, Sessional Paper No. XVIII of 1951; K.J. Pelzer, "The Agrarian Conflict in East Sumatra", *Pacific Affairs*, June 1957; Erich Jacoby, *Agrarian Unrest in Southeast Asia*, London, 1961; George Beckford, *Persistent Poverty*, London, 1972; Peter Klaren, *Formación de las haciendas azucareras y orígenes del APRA*, Lima, 1976, chapter 3; Frank Mills, "Production Relationships Among Small-Scale Farmers in St. Kitts", *Social and Economic Studies*, Vol. 25, No. 2, 1976, p. 154; David Dunham, "Land, Plantations and Peasants in Sri Lankan Development: the period prior to 1900", *Institute of Social Studies*, The Hague, 1980.

⁷This is very clear in the case of what is often called 'the planter raj'. See Carl Stone, "Political Aspects of Post-War Agricultural Policies in Jamaica 1945-1970", *Social and Economic Studies*, Vol. 23, No. 2, June 1974; George Beckford, "The Dynamics of Growth and the Nature of Metropolitan Plantation Enterprise", *Social and Economic Studies*, Vol. 19, No. 4, December 1970, pp. 456 f; and Dunham, *op. cit.*, 1980. Similar biases are well noted for Brazil: see Celso Furtado, *The Economic Growth of Brazil*, Berkeley, 1963, and Martin Katzman, "The Brazilian Frontier in Comparative Perspective", *Comparative Studies in Society and History*, Vol. 17, No. 3, 1975. See also the extensive literature on white settlement in the United States, Canada and Australia. On the latter see Rosa Luxemburg, *The Accumulation of Capital*, translated by A. Schwarzschild, London, 1951, chapter 29.

⁵The research that was carried out was basically of two kinds. The first was anthropological or ethnographical in

even firmly promoted. Some derived from a strong philanthropic dimension,⁸ but more generally it would seem to have been the case that they were promoted because they were instrumental in export production or because they were associated with situations of crisis for the governments concerned. Basically there were two types of policies involved. The first were designed primarily to strengthen and maintain the existing economic system; they were concerned with the increased production of export crops and with the production of staple foods for non-food producers. The second, which were a response to demands for change, were largely associated with the hoary question of land and land tenure reform. In many cases these motives overlapped; nevertheless, they will be considered separately for analytical purposes in order to explore the logic that lay behind them and the nature of the political context in which they emerged.

(a) *The role of small farmers in export production*

The first of these situations was one in which export production could be more efficiently, or at least (for the capitalists) more safely carried out by small farmers selling to large-scale (usually foreign) commercial firms or to independent centrally-located processing mills.⁹

⁸See for example Robert Chambers, *Settlement Schemes in Tropical Africa*, London, 1969, Part I.

⁹This picture of the small farmer in export expansion has to be treated rather carefully, since it is often debatable as to how far it can really be characterized as a 'small-farmer' system. Since the 1920s the idea of frontiers as "wild unsettled places where resources are free, rules do not apply, and where at the cost of personal hardship and danger an individual can better himself by his own efforts" has been a recurring theme of western romance and historiography. Even in the period of white settlement (of the American West) this was simply not true. In the United States rail companies were granted land and allocated it to pioneer farmers on a massive scale, while in Canada the North-West Land and Hudson Bay Companies controlled over half of the land that there was to be settled. Similarly, the Australian frontier was not a frontier opened up by small prospectors and family farmers, but by capitalist ranchers with numerous flocks of sheep and dependent wage labour. They were actively supported by large land companies and banks. See Rosa Luxemburg, *op. cit.*, and Brian Fitzpatrick, "The Big Man's Frontier and Australian Farming", *Agricultural History*, Vol. 21, 1947. The image

Though it is difficult to generalize about the circumstances under which a system of this kind began to emerge, it seems fair to say that during this early period it was particularly viable where one or more of the following criteria applied: (i) in areas where for certain historical or climatic reasons white settlement was difficult; (ii) for those crops which did not require high capital outlays to reach acceptable production levels (or where they offered comparatively little advantage); (iii) where cultivation could be carried out for most if not all of the year with family labour; and (iv) where limited outlets and the risk of deterioration and loss in the marketing process kept the producer very dependent upon his buyers. Where small farmers could be controlled through credit and through marketing arrangements and offered the buyer a regular supply of a uniform and fairly high-quality product, it was generally in the interests of major capitalist groups to leave small farmers with the responsibility for production, and with it much of the risks.

Two particular cases stand out as classic examples of small-farmer production of export crops during this period, namely, those of Ghanaian cocoa and of the rice-exporting countries of Eastern Asia. Although these cases differed in a number of important respects, they were all promoted by colonial interests (except in the case of Thailand) and were tightly controlled through tenure arrangements, marketing structures and the political system.

In the case of Ghana, cocoa was produced on both privately-owned and on lineage lands, on small farms of one or two hectares or even less, run by the family with the help of migrant labour from further north. Until 1945, and in a somewhat revised form until very much later than that, a cartel of some thirteen European companies (the so-called "Pool Firms") had tight control of Ghana's (then the Gold Coast's) international trade.¹⁰ They bought the crop di-

of the 'pioneer' farmer which underlines much of our thinking on 'colonization' is in fact very largely a constructed one; it is a myth, a product of western ideology and of western romance.

¹⁰In 1938 these 13 firms controlled some 93% of all the cocoa bought in Ghana; this was heavily concentrated in 4 or 5 firms, the principal of which was the United Africa Company (a subsidiary of Lever Brothers). See the *Report*

rectly from the small producers through their own network of brokers and petty buyers, with liberal use of cash advances to secure their supplies.¹¹ Once this organization had been established it was difficult to change it, nor was there any demand for change in the production system.

The second case was that of the rice-exporting countries of Eastern Asia, namely Burma, Thailand, Indo-China and Taiwan. Though all were examples of small-farmer rice production, there were also variations amongst them. On the one hand were countries such as Burma, where migrant labour and an abundant supply of thinly-populated land made possible the extension of 'traditional' production methods under the stimulation and control of foreign traders. On the other hand were areas such as Taiwan, where land was more or less fully occupied from the beginning of this export expansion and where the growing importance of rice produced by small farmers as an export commodity was associated with the introduction of new varieties under colonial rule.

In the Burmese case high prices resulting from European demand sparked off heavy migration to frontier areas. This was accompanied by a proliferation of traders and moneylenders providing the credit needed for the massive extension of rice production, while European merchants dominated milling and monopolized the exports to Europe.¹² There was a sharp decline in prices after the 1914-1918 war;

mortgaged land was lost as a result of foreclosures, and there was a gradual concentration of paddy land in the hands of the by-then-established landlord class. In this sense the case of the Burma delta followed an almost classic path of capitalist development.

The example of Taiwan under Japanese occupation was very different. The export of rice for the Japanese market was underway by the middle of the 1920s and it was associated with the introduction of a new variety.¹³ The average size of farm was about 2 hectares, and colonial policy rested heavily on the small-farm sector. However, a large proportion of the producers were either sharecroppers or tenant farmers, and the Japanese worked almost entirely through the landlord class. Small producers marketed their rice via their landlords (many of whom were also in practice millers) and export was solely in the hands of Japanese firms.

Comparable cases of small-farmer involvement in export production can be found in many other parts of the world, reflecting similar patterns of differentiation and of control. In Colombia the average size of the coffee farm was still small during this period. In 1950 it was just over three hectares; over a third of all the coffee farms in Colombia (36%) were of less than one hectare, and the industry was controlled by some five export houses.¹⁴ In Sao Paulo coffee lands were given to *colonos* and to small farmers working on a sharecropping basis. Under this system the owner not only supplied the land, but dictated how the land was to be used, the system of cultivation that was to be followed, and the types of management practices that were to be applied.¹⁵

of the Commission of Enquiry into the West African Cocoa Industry (the Nowell Commission), H.M.S.O., London, 1938.

¹¹On the early cocoa development see Polly Hill, *The Migrant Cocoa Farmers of Southern Ghana*, Cambridge, 1963. Her thesis was essentially that cocoa production was from the very beginning a form of incipient capitalism. On the organization and control of trade see David Dunham, *Group Interests and Spatial Structures: A Study of Regional Development in Southern Ghana*, University of Amsterdam, 1977.

¹²See Michael Adas, *The Burma Delta: Economic Development and Social Change on an Asian Rice Frontier, 1852-1941*, Madison, 1974; and Hla Myint, *The Economics of Developing Countries*, (4th edition), London, 1973. To give an impression of the scale of this transformation, the population of Lower Burma increased from 2.6 million in 1871-1872 to 4.1 million in 1900, while the area cropped rose from 0.4 million hectares to 3.5 million hectares over the same period.

¹³See S.C. Hsieh and T.H. Lee, *Agricultural Development and its Contribution to Economic Growth in Taiwan*, JCRR, Taipei, 1966; S.M. Yeh, *Rice Marketing in Taiwan*, JCRR, Taipei, 1955, and *Taiwan Agricultural Statistics 1901-1965*, JCRR, Taipei, 1966.

¹⁴United Nations/FAO, *Coffee in Latin America: Productivity, Problems and Future Prospects*, Vol. I, New York, 1958, p. 27; J.W.F. Rowe, *The World's Coffee*, London, 1963, p. 64, and Absalon Machado, *El café: de la *aparcería* al capitalismo*, Bogotá, 1977.

¹⁵United Nations/FAO, *Coffee in Latin America...*, op. cit., 1958, Vol. II, p. 89, and Thomas Holloway, "The Coffee Colono of São Paulo, Brazil: Migration and Mobility, 1880-1930", in Kenneth Duncan and Ian Rutledge (eds.), *Land and Labour in Latin America*, London, 1977.

In the West Indies banana and sugar production had a significant small-farmer sector.¹⁶ To this list could be added Fijian sugar after 1920, oil-palm and cocoa in Nigeria, coffee in French West Africa, West African groundnuts, and East African cotton. There were also many cases where small farmers played a role in 'out-grower' production, producing for sale to the neighbouring plantation factory or to a processing mill.¹⁷

In short, there is no dearth of evidence to show that the role of small producers in export production was far from insignificant during this period. What is more, replacing them with large producers was not an issue so much as establishing tighter control over their production and finding ways of raising the quality and yield of their crop through the introduction of better cultivation practices and management methods and, more generally of acquiring a cheaper product. Priority was clearly assigned to export growth, rather than to the welfare and development of small producers. Many of these people did benefit and were amongst the most prosperous small producers in the country concerned, but this they could only achieve at a certain cost, the principal features of which included the nature of their existing tenure arrangements, their vulnerability to changes in prices on external markets, and their dependence on those who controlled the access to these markets and those who controlled the processing needed before export.

Small farmers were part and parcel of the process of capitalist expansion. Within the

parameters set by the export model (and the institutional structures that carried it out), they also acquired certain new opportunities and their success encouraged others to export production. The small-farm sector developed its own dynamics of accumulation and social differentiation, with betterment for some (often for many), but indebtedness, loss of land and impoverishment for a great many more. As the number of producers increased prices often fell; farmers were left heavily dependent on 'modern' inputs, on cash incomes to buy their foodstuffs, inputs and other 'necessities' and to pay their tax. The important point, however, was that the possibilities for small farmers to improve their position ultimately depended on continued interest in these crops on the part of richer capitalist groups, on the fortunes of these crops in international markets, and on the ways in which those who were in a position to control this trade used small-farmer production to meet their own ends.

(b) *Small farmers in domestic food production*

The second situation in which small-farmer policies were introduced in order to maintain the prevailing economic system was one characterized by serious and often persistent shortages of food, where the Government was faced with a reduction in foreign supplies or the prospect of a rapidly mounting import bill because of a shortfall in domestic supplies of the staple diet. In an agricultural export economy priority was given to export production, at the expense of domestic food production. This situation was generally characterized by a structural imbalance which was exposed at times when export values decreased and costly imports of food began to prove an embarrassment, or when the power of agrarian capitalists began to decline and they were challenged by urban groups and by the votes and demands of producers outside the export sector. In some cases both of these trends occurred simultaneously.

By the 1920s and 1930s many such economies suddenly found themselves vulnerable; a large proportion of their population was in the 'traditional' sector, unemployment was high, and with significant improvements in health conditions in the rural areas pressure on the

¹⁶For example over three-quarters of all banana growers in Jamaica, Dominica, St. Lucia, St. Vincent and Grenada operated farms of less than 2 hectares in the early 1950s. Furthermore, the vast majority of these specialized in export production and were tightly controlled by exporting firms. See Dennis McFarlane, "The Future of the Banana Industry in the West Indies", *Social and Economic Studies*, Vol. 13, No. 1, 1964, p. 70. On the sugar industry see George Abbott, "The West Indies Sugar Industry with some Long-Term Projects of Supply", *Social and Economic Studies*, Vol. 13, No. 1, 1964; and Ramiro Guerra y Sánchez, *Sugar and Society in the Caribbean: an Economic History of Cuban Agriculture*, first published 1927, English translation, New Haven, 1964.

¹⁷See George Beckford, "The Growth of Major Tropical Export-Crop Industries". *Social and Economic Studies*, Vol. 13, No. 4, 1964; P.P. Courtenay, *Plantation Agriculture*, London, 1965, chapter 4; and on French West Africa, Jean Suret Canale, *L'Afrique Noire*, Paris, 1962.

little good cultivable land available to the majority of small village producers began to increase. By the 1950s the import bill for foodstuffs was often considerable: Brazil was importing almost a million tons of wheat and wheat flour each year, and Cuba, Trinidad and Tobago, Sri Lanka, Malaysia, Indonesia, the Philippines and many more countries were highly dependent on external supplies of their basic foods.¹⁸ In this context colonization and small-farmer food production became a topic of concern to policy-makers as a means of keeping these export economies viable systems.

A good illustration of this is the case of Sri Lanka during and immediately after the two world wars. The experience of the 1914-1918 war, for example, and its immediate aftermath made the Government acutely aware of the extent of the Colony's dependence on imported rice. Over 60% of supplies came from foreign sources, and when these were cut off the structural imbalance built into the export economy was such that there was a shortage of crisis proportions.¹⁹ Import purchasing power was reduced by the slump in the estate sector after the war, and there was a constant threat of India imposing export duties on rice in order to try and resolve its own food situation. The result was a drive for self-sufficiency in rice production and growing concern for the problems of the small producer.²⁰

A similar situation occurred in Jamaica in the late 1930s. The country was confronted with shortages of food which continued during the war, and with the economic decline of the dominant planter class there was a marked shift in priorities towards small-farmer food produc-

tion in the context of considerably expanded land settlement schemes.²¹

In Ghana there was mounting concern with food production in the wake of the 'urban disturbance' of the post-war years,²² while elsewhere in Africa there was a paternalistic concern with 'conservation' and 'improved practices' to combat the threat of famine in peripheral areas.²³ The list could be extended, but the point that stands out is that in general the emphasis on export crops had been taken too far, exposing the fragility of the domestic food situation—a fact which very quickly came to the surface when the system was threatened, as it was during the depression years of the 1930s and in the course of the 1939-1945 war. In this period the power of the 'colonial' export class was beginning to weaken; the economic system of many of the colonies could no longer be maintained without a shift towards increased food production, and in many cases this led to a greater concern for 'peasant production'.

(c) *Politics and the demand for land and land tenure reform*

The third case, interrelated in many ways with both of the earlier ones, centered around the thorny question of land and land tenure reform. The concern with the peasantry and with food production invariably touched upon the availability of land and upon the question of land ownership and of private property. Export production and other forms of large-scale commercial agriculture had in many areas pre-empted the possibility of peasant expansion. The effect

¹⁸FAO, *Yearbook of Food and Agricultural Statistics*, Vol. IV, No. 2 (Trade Statistics), Rome, 1950, pp. 9f.

¹⁹There was a very definite political dimension in this in that the Sri Lankans had a majority (albeit a divided majority) on the Legislative Council by 1921, and these people saw the peasant producer as a potential constituent. This point will be taken up later. On the structural imbalance of such an economy see Gamani Corea, *The Instability of an Export Economy*, Colombo, Marga Institute, 1975.

²⁰On this see Ben Farmer, *Pioneer Peasant Colonisation in Ceylon*, London, 1957, and David Dunham, *Government Policy Towards Peasants and Towards Colonisation: Sri Lanka prior to 1931*, The Hague, Institute of Social Studies, 1980.

²¹See C. Stone, *op. cit.*, 1974, and Ken Post, *Arise Ye Starvelings*, The Hague, 1979.

²²See the *Report of the Enquiry into Disturbances in the Gold Coast*, London, H.M.S.O., 1948.

²³Robert Chambers, *Settlement Schemes...*, *op. cit.*, 1969, p. 22. In 1954 the Belgian Government for example, reflected precisely this when they prefaced their remarks on a U.N. questionnaire by saying "in the Congo we have to deal with a primitive rural society which is profoundly apathetic, fatalistic and attached to its ancestral traditions" and went on to argue this as a justification for "native agricultural settlement" ("paysannat indigène"). See UN/FAO/ILO, *Progress in Land Reform: Analysis of Replies by Governments to a United Nations Questionnaire*, New York, 1954, p. 108.

was not always a direct one. At times the different forms of production did not compete, as plantations were located in the upland areas and paddy rice was concentrated in valley bottoms.²⁴ And even where they did the implications were not always immediately apparent. It was often only later, with health improvements, population growth and increased social differentiation, that the pressure on available land began to increase and there was a growing demand for some measure of redistribution.

In Asia the highly skewed pattern of land ownership had long been recognized. There were clashes between landlords and tenants and between estates and villagers, often because peasant farms (or the income left to a family after payment of 'rents') had simply become too small to enable families to live. In the Philippines the proportion of landless farmers was "astonishingly high" in the 1930s, and there were frequent disputes.²⁵ In Sri Lanka tenant farmers in the wet zone of the country were oppressed by tenure arrangements and by the activities of headmen employed for the administration of local affairs.²⁶ Much the same could have been said for rural Java, where there was concern for "the problem of overcrowding" and where inequalities in ownership and in access to land had long been recorded.²⁷

In much of Latin America and the Caribbean the situation was also similar. Physical displacement was a prominent feature of commercial expansion; the indigenous population (in Bolivia, Ecuador and Peru especially, but also elsewhere) were forced to the altiplano and to remoter parts of the country (as in Colombia) where they endeavoured to farm the marginal soils and the limited lands which

were left to them.²⁸ The most urgent demands in the 1930s and 1940s came, however, from the densely populated rural areas, from the *minifundistas* tightly controlled by tenancy structures and confined to areas where there was simply not enough land to afford them subsistence.²⁹ Many could claim no more than a 'squatter' status and were living under constant threat of summary eviction. Others had been squeezed onto the hillsides where soils were often poor and easily eroded. There was increasing fragmentation of the land available, and a growing problem of landlessness, poverty and unemployment.³⁰

In most of these cases the basic problem was not simply one of unequal land ownership and tenure arrangements, but one of power: of the economic, social and political hold of the landowning class. Small farmers were faced with a series of pressures and institutions which, while they were sometimes (though by no means always) paternalistic in nature, provided them with little scope for social mobility and conceded them very low incomes and very few rights.³¹ In a situation of mounting discontent, with landowners organized into right-wing parties influencing government and administration, the social climate was often one of increasing repression. The need for land reform was portrayed (and in time perceived) as 'an explosive force'.³²

In Africa the relative abundance of uncultivated and reasonably fertile land meant that in general there were fewer strains of this kind,

²⁴In many areas there was a distinct and definite segregation, implying different ecological requirements and different access conditions.

²⁵J.R. Hayden, *The Philippines: A Study in National Development*, New York, 1942, p. 380. On this see also K.J. Pelzer, *Pioneer Settlement in Tropical Asia*, New York, 1948.

²⁶See the *Report of the Commission on the Headman System*, Sessional Paper No. II of 1922, and its successor No. XXVII of 1935. For an impression of the way caste operated see Barrie Morrison, M.P. Moore and M.U. Ishak Lebbe (eds.), *The Disintegrating Village*, Colombo, 1979.

²⁷K.J. Pelzer, *Pioneer Settlement*, *op. cit.*, 1948, chapter IX.

²⁸UN/FAO/ILO, *Progress in Land Reform: Third Report*, New York, 1962, p. 2; Solon Barraclough and Juan Collater (eds.), *Agrarian Structure in Latin America*, Toronto and London, 1973; and Henri Favre, "The Dynamics of Indian Peasant Society and Migration to Coastal Plantations in Central Peru", in Duncan and Rutledge (eds.), in *Land and Labour...*, *op. cit.*, 1977.

²⁹See United Nations, *Report on the World Social Situation*, New York, 1963, pp. 131-133.

³⁰Inter-American Committee on Agricultural Development (CIDA), *Tenencia de la tierra y reforma agraria en América Latina*, OAS, Washington, D.C., 1971; see also Orlando Fals Borda, *El hombre y la tierra en Boyacá: desarrollo histórico de una sociedad minifundista*, Bogotá, 1957.

³¹See on this CIDA, *Tenencia de la tierra...*, *op. cit.*, 1971.

³²Thomas Carrol, "Land Reform as an Explosive Force", in J.J. Tepaske and S.N. Fisher (eds.), *Explosive Forces in Latin America*, Colombia, 1964, p. 89.

with some exceptions. In Zimbabwe (Southern Rhodesia), Kenya and Southern Africa European settlement seriously reduced the good land available to African people. Exacerbating or creating 'population problems' in the remaining areas, it also led to a political situation in which African expansion was seen as a threat to European security.³³ In Kenya the situation was considered to be particularly threatening, culminating in the Emergency of the 1950s, when the Kikuyus rebelled.

And yet, at least until the early 1950s, there were very few statistical surveys on which to base any serious analysis of land distribution. In many countries the prevailing pattern was only too clear, but in general the information available was 'spotty and conjectural'.³⁴ It was very difficult to say whether (or how far) the problems that came to light in particular cases were representative of the national picture or not. The whole question of land and land tenure reform and of colonization (or transmigration) was therefore largely a political response to social contradictions and pressures for change.

The latter in practice took on various forms. In colonial areas land policy had proved an angry issue by the turn of the century. In India Gandhi was fighting to improve the lot of impoverished villagers as early as the 1914-1918 war; the abolition of landlordism was part of the socialist programme of M.N. Roy (to align the National Congress with "exploited workers and peasants"), and the Congress supported small-farmer interest at the All-India level.³⁵ In the Caribbean, estate land was very much a political issue, and by 1950 the sugar industry lived in an atmosphere of mounting hostility, of

strikes, riots, labour disputes and the burning of cane.³⁶

Throughout the colonial world, this opposition concern with the needs of village producers was never far from the fight against imperialist rule, and in this respect it was used as a plank in a broader campaign.³⁷ With the gradual move to elected representation and the increasing politicisation of rural areas in the wake of improvements in transportation and literacy levels, the ownership of land and the lot of the rural poor were skillfully used by nationalist leaders to rally support and to hit out at the bias inherent in colonial rule.³⁸

The situation in Latin America was not very different. In some areas there was not only discontent, there were *campesino* uprisings, mass meetings in rural towns, determined and armed invasions of large estates, and mounting support for the small farmers' cause amongst urban groups. These events were to create a widespread feeling of apprehension and of insecurity, alarming not only the traditional land-owning class, but a wider range of national politicians, businessmen and others as well.³⁹

In many cases the social tensions that were being generated were of such proportions that they were not so easily controlled and could not be ignored. Nor were these governments invariably so insensitive to the impoverishment of village communities trying to feed their families on minute parcels of land, or with no land at all. With the heightening of the depression and the increasing population growth of the post-war era, they were above all aware of the potential political threat posed by uncontrolled situations of deprivation and exploitation. As a

³³R. Chambers, *Settlements Schemes...*, *op. cit.*, 1969, chapter 2. The European response to the mounting land problems was one with overtones of "confining and controlling African farmers in their own areas" (p. 25).

³⁴See UN/FAO/ILO, *Progress in Land Reform*, New York, 1954; and Richard Schaedel, "Land Reform Studies", *Latin American Research Review*, Vol 1, No. 1, 1965, p. 75.

³⁵For a summary of the material available see Sipko de Boer, *Peasant Movements in India during the Twentieth Century*, The Hague, Institute of Social Studies, 1973; Gene Overstreet and Marshall Windmiller, *Communism in India*, Berkeley, 1959; and Myron Weiner, *The Politics of Scarcity, Public Pressure and Political Response in India*, Chicago, 1962.

³⁶See W. Arthur Lewis, *Issues in Land Settlement Policy*, Report to the Caribbean Commission West Indian Conference, 1950.

³⁷Whether the main target should be colonialism or capitalism was very often a topic of considerable debate (especially in India), but in neither case were problems of the small producer *per se* of central concern.

³⁸It also served in some cases (for example Sri Lanka) to distract attention from the fact that the nationalist leaders came from landowning families. See David Dunham, "Politics and Land Settlement Schemes: the Case of Sri Lanka", forthcoming in *Development and Change*.

³⁹See Rodolfo Stavenhagen (ed.), *Agrarian Problems and Peasant Movements in Latin America* (New York, 1970), which provides material on specific cases.

result, various 'small-farmer' policies began to emerge.

These policies were basically of four main kinds. Firstly, there was the increasing importance of government-sponsored colonization schemes, especially in Asia.⁴⁰ Depression led to retrenchment in the plantation sector. In Indonesia it seemed quite unlikely that the plantations would ever employ the same numbers again; pressure on land in Java had reached dangerous proportions, and the Government turned to large-scale colonization of the Outer Islands by way of response.⁴¹ In the Philippines the 'opening up' of the island of Mindanao began during this period, while in Sri Lanka the Land Development Ordinance of 1935 paved the way for a series of settlement schemes.⁴² In Latin America 'spontaneous colonization' was permitted for rather similar reasons, while settlement schemes in Kenya and Zimbabwe were introduced in an attempt to defuse a potentially dangerous situation.⁴³

The second response was to 'reserve' lands for the use of the local population. Policies of this kind were generally presented as a means of 'protecting' the needs of local communities against the incursions of speculators, money-lenders or the plantation system, preserving the possibility of village expansion (or subsistence production) as their population grew. Examples of this were the 'mapping out' and protection of lands for villagers' use in the Wet Zone of Sri Lanka, the creation of Malay reservations in Malaysia, and the setting aside of lands for 'indigenous occupation' in South Africa, Kenya and Zambia (then Northern Rhodesia).⁴⁴

Thirdly, legislation was introduced to regulate tenancy arrangements and sales of land and fourthly, land redistribution policies were implemented. The legislation aimed at land tenure reform, for example, was far more frequent and far more prolific during this period than is sometimes realized. The Philippines had a particularly long history of agrarian legislation, reflecting the violence taking place in the countryside.⁴⁵ The Land Tenure Act passed in Colombia in 1936 had a similar history, while in India there were a series of tenure laws passed by the various states.⁴⁶ When it came to redistribution of land there were far fewer examples. The Mexican revolution was the clearest case, though Bolivia undertook serious reforms in 1952, as had Guatemala in 1944, only to see them overthrown in counter-revolution a decade later.⁴⁷

The important point here was that sweeping measures for the redistribution of land only occurred in the wake of radical political change at the national level; in most societies land-owners were amongst the principal powerholders, and there was little chance of them willingly sanctioning policies that were likely to undermine their own power position. Concessions had to be made in many respects, but the outcome was frequently different from what was proclaimed. The legislation that was passed was frequently thwarted by obstructionist tactics and by the influence of powerful landed groups during implementation. Colonization schemes were fraught with difficulties; it was not necessarily the case that the land went to those in need, and projects generally involved a considerable degree of control over

⁴⁰Earlier African projects were more concerned with clearing the land for European settlement or with moving people from unhealthy areas (notably areas of sleeping sickness). These involved a very different context from that described here.

⁴¹Large-scale colonization took place principally between 1932 and 1941. See K.J. Pelzer, *Pioneer Settlement...*, *op. cit.*, 1948, p. 228.

⁴²See K.J. Pelzer, *ibid.*, and B. Farmer, *Pioneer Peasant Colonisation...*, *op. cit.*, 1957.

⁴³This was particularly true of the areas of irrigated settlement. See R. Chambers, *Settlement Schemes...*, *op. cit.*, 1969, and on Latin America, CIDA, *Tenencia...*, *op. cit.*, 1971.

⁴⁴*Report of the Land Commission...*, *op. cit.*, 1929; Erich Jacoby, "The Problems of Vulnerable Communities

in Land Policies", in FAO, *Documentation Prepared for the Center on Land Problems in Asia and the Far East*, Rome 1955, pp. 61f; United Nations, *Land Reform: Defects in Agrarian Structure as a Bottleneck to Economic Development*, New York, 1951, p. 33.

⁴⁵K.J. Pelzer, *Pioneer Settlement...*, *op. cit.*, 1948, chapter IV.

⁴⁶United Nations, *Progress in Land Reform: Second Report*, New York, 1956, p. 10; and United Nations, *Land Reform: Defects...*, *op. cit.*, 1951. Similar legislation can be found in the case of Burma (the Tenancy Act of 1938 and the Land Alienation Act of 1940) and in the Middle East.

⁴⁷See R. Stavenhagen (ed.), *Agrarian Problems...*, *op. cit.*, 1970, and S. Barraclough and J. Collarte (eds.), *Agrarian Structure...*, *op. cit.*, 1973.

both the production and social life of the individual settler.⁴⁸ Finally, when the land was 'mapped out' in the form of 'reserves', in the absence of other institutional changes it was concentrated in the hands of the 'well-to-do'.⁴⁹ In other cases is served to 'protect' the interests of European groups or to ensure a supply of labour for the mines and European estates.⁵⁰ It was by no means the case that 'small-farmer' policies were based on a preoccupation and concern with 'the needs of the poor'.

The twenty years immediately prior to 1950 were marked by severe resentment of the inequalities that existed in access to land and to other opportunities and of paternalistic and generally repressive political regimes promoting the very structures that had heightened this inequality. The pressures were such that many governments were forced to adjust their position, and the result was often a stream of 'small-farmer' policies.

The introduction of laws and distributive measures served (often very effectively) to give the impression that the government recognized and was tackling agrarian issues, but in practice the problems involved in ensuring effective enforcement were well beyond the technical capacity and inclination of governments and of the courts. Some laws could be supervised with a degree of success, but in many more cases measures were only approved at the national level on the tacit agreement that they would rarely, if ever, be rigorously enforced.⁵¹

Once laws were passed, no matter how ineffective they were to prove in the course of time, they made the logic of further action that much more difficult. The underlying objective was revolution; to bring an end to foreign land ownership or destroy *latifundismo* rather than give rise to a concrete view of an alternative

society. It was essentially a pressure for change in the economic and political structure, and this could not be obtained through legislative reform.⁵² Only with the overthrow of colonial rule would small farmers be seen in a different light; nationalist leaders attentive to old inequalities and often struggling to establish effective control voiced a greater concern for 'their countrymen' and for 'nation-building'. It was in this 'independence' era from the 1950s that the new States and those in Latin America began to develop a different economic model in which the priorities attached to the small-farm sector were (if not always higher) at least different.

2. The situation after 1950

After 1950 many of the same contradictions continued, but they did so in a different political climate and in the context of a rather different economic model. Thinking on economic policy was influenced by the situation of newly independent States of Africa, Asia and the Caribbean and by theories derived in the Economic Commission for Latin America. In both cases the image was one of 'underdeveloped countries' struggling to adjust their economic and political ties with advanced capitalist nations. Industrialization was seen as the basis for 'real' development, and the main body of orthodox thinking on development strategies increasingly emphasized large-scale (capital-intensive) infrastructural investment and industrialization. By the 1950s this was the basic model for economic growth.⁵³

On the other hand, few countries were actually in a position to undertake a major programme of industrialization. In Latin America there had already been serious efforts. In Africa new States were striving to develop a rudimen-

⁴⁸See B. Farmer, *Pioneer Peasant...*, *op. cit.*, 1959, and K.J. Pelzer, *Pioneer Settlement...*, *op. cit.*, 1948.

⁴⁹See Kew Tan, *The Land and the Agricultural Organisation of Peninsular Malaya: A Historical Interpretation*, Centre for Development Studies, Swansea, 1981, and D. Dunham, *The Politics...*, *op. cit.*, 1982.

⁵⁰R. Chambers, *Settlement Schemes...*, *op. cit.*, 1969, and United Nations, *Land Reform: Defects...*, *op. cit.*, 1951.

⁵¹On this see Solon Barraclough and Arthur Domike, "Agrarian Structure in Seven Latin American Countries", in R. Stavenhagen (ed.), *Agrarian Structure...*, *op. cit.*, 1970, pp. 41f.

⁵²See Thomas Carrol, "The Land Reform Issue in Latin America", in Albert Hirschman (ed.), *Latin American Issues*, New York, 1961.

⁵³There were also other arguments behind this line. No country had become rich or succeeded in achieving a significant improvement in standards of living without having industrialized. Industrialization was therefore rather easily related to the idea of 'development'. In other cases (such as Argentina and Brazil) the military was pressing for industrialization to sustain the country's military power and independence.

tary industrial base or else were pursuing socialist experiments in an effort to make a clean break with their colonial past, but in neither case was there industrialization in a meaningful sense outside South Africa. In Asia, Taiwan had undergone some industrialization under Japanese rule to serve the needs of the Imperial war effort; Korea was beginning, but elsewhere war and the vicissitudes of national leaders made this a far less plausible proposition. It was only in India, and to a lesser extent Pakistan, that industrialization could be said to have become a major policy line.

The finances needed to pay for industrialization, and more especially to pay for imported capital goods, basically had to come from three main sources: from external loans and investments by foreign capitalists; from industry itself; or from the export sector. With a few notable exceptions (such as Bolivia, Chile, Venezuela, Suriname and South Africa), it was the foreign exchange derived from agriculture that accounted for the greater part of the country's export earnings, though once industrial expansion was underway investment could come from the industrial sector itself. However, this was more likely when inputs from other sectors were relatively cheap compared to the price of industrial manufactures, and when the wages paid in the industrial sector were low in relation to industrial profits.⁵⁴

Which sources were to prove the more prominent, and how far agriculture was expected to bear the brunt of industrial expansion, depended both on the structure of the given economy, and on the nature and structure of the political system.⁵⁵ How far there was in practice a 'squeeze' on agriculture, and how far there was an alliance between the nascent industrial and the traditional rural bourgeoisie is difficult to sum up in a generalization. But what is clear is that, in as far as industrial policy needed changes in the rural sector, these were only possible with the emergence of politically powerful urban groups who had interests different from those of the landlord class, with the growth of electoral systems in which small

farmers and propertyless groups had some voice, and with a situation in which industrialization and falling prices in export markets weakened the importance of landed as against other forms of wealth.

As industrialization (and with it urbanization) progressed, demands on the agricultural sector began to change. There was pressure on the traditional export sector for foreign exchange to meet the increasing import bill; there was a growing demand for cheap inputs and cheap wage goods (principally food) in order to keep down costs in the industrial sector; there was increased demand for cheap labour (both in the urban areas and in capitalist agriculture) which had primarily to come from rural areas, and there was a need to expand the internal market for the manufactures that would be locally produced. Together these factors led to a different economic model, and one which looked at problems in rural areas and in agrarian structures in a different light.

With these demands, the constraints at work in the rural sector became more apparent. From the 1950s onwards per capita food production and total food production per capita were growing at less than 1% per annum, and this rate was slowing down despite advances made in the so-called 'green revolution'.⁵⁶ Total population, and more particularly the urban population, was increasing rapidly, and the countries' export sectors were facing growing problems in international markets.⁵⁷ Agriculture was seen as a point of 'internal strangulation'—as the 'bottleneck' in economic development—and increasing emphasis was placed on the need for balance between agriculture and other sectors.⁵⁸ A new approach to agricultural development seemed needed.

⁵⁶See Keith Griffin, "Agrarian Policy: The Political and Economic Context", *World Development*, Vol. I, No. 11, 1973.

⁵⁷See United Nations, *Concise Report on the World Population Situation in 1977*, New York, 1979, pp. 62-69; Inter-American Development Bank, *Latin America in the World Economy*, Washington, D.C., 1975, chapter III, and CEPAL/FAO, "Situation and Evolution of Agriculture and Food Supplies in Latin America", *Economic Bulletin for Latin America*, Vol. XIX, Nos. 1-2, 1974.

⁵⁸See Raúl Prebisch, *Hacia una dinámica del desarrollo latinoamericano*, CEPAL, Santiago, 1963; and United Nations, *Land Reform: Defects in Agrarian Structure...*, *op. cit.*, 1951.

⁵⁴On this see R.B. Sutcliffe, *Industry and Underdevelopment*, London, 1971.

⁵⁵See Ashok Mitra, *Terms of Trade and Class Relations*, London, 1977.

For all this, there was inevitably continuity in government policy. The export sector remained an important one, albeit at times with different objectives, and often with struggles to control it through nationalization.⁵⁹ In the savannah zone of West Africa and in Southern Africa, 'peripheral' regions were consciously undeveloped, receiving little by way of government expenditure, in order to ensure an outflow of migrant labour. Wages in the capitalist sector were based on the subsistence costs of the single man; women, older men, the disabled and children were cared for 'at home' in small-farming communities which in this way (in the absence of 'social services') lowered the costs of labour in the industrial sector.⁶⁰ This was a policy developed in the colonial period and retained because it facilitated development of the 'modern' sector and because these structures simply could not be adjusted overnight without undermining the country's economic growth.

However, the situation was changing and a number of broader considerations were being brought to bear. One of these was the fear of communist infiltration. In the early 1950s the United States army was engaged in Korea, and in other Southeast Asian countries guerrilla wars were raging in rural areas. In Malaysia the British were fighting 'communist insurgency', the French were losing ground in Indo-China and the Philippines were considered to be under dire threat.⁶¹ In Latin America the United States was trying to improve the climate for foreign private investment until the Cuban revolution led to reassessment of its position.

All of this influenced western foreign policy. In Asia the inability of colonial and post-colonial governments to provide enough food to feed their growing populations was considered to be the crux of the political issue. Amer-

ican aid, other than military aid, was closely tied up with food and with food production, and one of its important weapons in this respect was the way it used its surplus food production.⁶² Distinctive views were also beginning to emerge concerning the need for reform in the rural areas. "In country after country", wrote one observer,⁶³ "one sees feudal classes bent on maintaining the *status quo* unsullied. They cannot gain popular support. They neither benefit the rural community nor have they proved at all effective against communist penetration. They are the unwitting and unwilling allies of communism, for they are the creators of the revolutionary situation".

It was clear that policies with regard to food production were developing definite political connotations.

Regarding Latin America, in the wake of the Cuban experience, the choice was increasingly seen as reform or revolution. President Kennedy insisted on various occasions that the promotion of democracy and reform were "the ultimate answer to Castro and the communists", and the Alliance for Progress placed particular stress on "economic growth, structural change and political democracy". The latter two were for a while a condition for American aid.

In short, there were various strands to be observed in the policy lines that the Western bloc began adopting in response to capitalist interests in Third World countries and to what it saw as the threat of communist infiltration and of insurgency. The small-farmer policies that emerged in this period have to be seen in such a perspective, against the cold-war situation of the early 1960s and communist successes in Asia and Africa in the decade that followed. Both dimensions—the importance of economic growth and political stability— influenced strategic thinking on the small-farm sector, and both of them can be seen in the emerging policy-lines. The most important of these concerned land reform, the opening up of new

⁵⁹See the case of the West African Marketing Boards, the marketing of Taiwanese rice and Indonesian rubber, and more recently the nationalization of tea, rubber and coconut estates in Sri Lanka.

⁶⁰As the need became increasingly more for skilled labour, labour had to become more permanent to make training worthwhile. This in turn led to a shift in the pattern of migration, with more migration of women and of people moving as couples.

⁶¹Harry Cleaver, "The Contradictions of the Green Revolution", *Monthly Review*, June 1972, p. 82.

⁶²On this see the evidence of Hubert Humphrey to the Senate Committee on Agriculture and Forestry, *Hearings on Policies and Operations of P.L. 480*, 1957, p. 129.

⁶³Louis J. Walinsky (ed.), *Agrarian Reform as Unfinished Business: The Selected Papers of Wolf Ladejinski*, New York, 1977, p. 134.

land, and the intensification of production in existing areas, and these three will each be discussed in turn.

(a) *The new perspectives on land reform*

With changes in the conventional development model there was also a renewed interest in land reform, in abolishing 'quasi feudal' agrarian relations which were seen as a principal problem in the agricultural sector. In Asia the main bone of contention in rural areas was the excessive rents extorted by absentee landlords who hoarded money, used it for conspicuous consumption, or else re-invested it in other sectors. The shortage of capital and the general air of insecurity surrounding tenancy arrangements meant little capital investment in agriculture and little scope for increasing productivity. In such cases land reform was to be seen as 'land to the tiller' and the abolition of an absentee *rentier* class and of an intermediary group of rent collectors, with the basic unit of production remaining the same.

In Latin America the situation was different. There was concentration of ownership and a great deal of power in large estates which had vast areas of underutilized or even unused land, while the vast majority of agricultural families had no land at all.⁶⁴ In this context land reform implied reorganization—the consolidation of small and fragmented units or the subdivision and redistribution of existing estates. In either case it required new units of management; land reform meant the disruption of earlier production patterns and in the short-term at least it seemed likely to lead to lower levels of production. Land reform therefore had different implications.

In all areas a crucial part of the whole land reform issue was of course the balance of political power in particular countries, and the

composition of the group that was pushing for change had much to do with the possibilities of ultimate success. In the Middle East many of the large landowners were viewed as collaborators with the colonial regime and they were eventually ousted by a coalition of urban-based groups and small producers under that banner.⁶⁵ In Venezuela and Peru small farmers and landless workers invaded estates and the government later ratified their action by land reforms after the fact (as had also occurred in Mexico and Bolivia). In all of these cases (and more generally elsewhere) land reform was used to confirm and to stabilize an already accomplished political change. Later, in the shadow of the Cuban revolution, the agreement of Punta del Este and the Alliance for Progress, the United States exerted considerable pressure on other governments in Latin America to introduce some measure of land reform, but the extent to which this occurred was very limited because the dominant political interests were very wary of change.

Finally, when land reform measures were introduced and an emphasis was placed on redistribution and on 'small-farmer' policies, they had to serve what the new leaders considered to be the needs of 'national development'. The small-farm sector was generally seen as something that required a good deal of control and supervision, encouraging farmers to 'modernize' their production, to raise their incomes and to contribute to the needs of people in the urban centres and in other sectors. It also implied that the State itself should play an increasing role in guiding the production and marketing of peasants' crops.

This tendency and some of the implications of it are perhaps best illustrated from individual cases. In Egypt, for example, there were a series of land and land tenure reforms following the overthrow of the *ancien régime* in 1952.⁶⁶ The country's agrarian structure had previously been one in which there was a high degree of concentration in the ownership of

⁶⁴See FAO, *Perspective Study of Agricultural Development in Latin America*, Vol. I, Rome, 1972, pp. 1-23; S. Barraclough and J. Collarte, *Agrarian Structure...*, *op. cit.*, 1973, Table 2-1, p. 16; Anthony Bottomley, "Planning in a Underutilised Economy: The Case of Ecuador", *Social and Economic Studies*, Vol. 15, No. 4, 1966; and CEPAL, "An Agricultural Policy to Expedite the Economic Development of Latin America", *Economic Bulletin for Latin America*, Vol. IV, No. 2, 1961.

⁶⁵On this see Doreen Warriner, *Land Reform in Principle and Practice*, Oxford, 1969, p. 12.

⁶⁶For a specification of these reforms see Mahmoud Abdel-Fadil, *Development, Income Distribution and Social Change in Rural Egypt 1952-70*, Cambridge, 1975, chapter 1.

land. Some 94% of all owners had plots of less than 2.1 hectares (5 feddans); rents were high, accounting for as much as 75% of the net income that sharecroppers or tenant farmers derived from their land, and it was more advantageous for absentee landlords to lease their land than to cultivate it themselves. There had emerged a whole structure of intermediaries between owner and tenant, and with it 'a whole hierarchy of tenures' on the same piece of land.⁶⁷

By 1950 poverty and exploitation were such that there was considerable tension and unrest in the countryside. The leaders of the July coup were conscious of this, of the need to destroy the power of the landlord class and to win the support of tenant farmers and landless groups. Agrarian reforms⁶⁸ "were welcomed by the 'enlightened' business circles in Egypt as timely measures, long overdue, to redirect investment into industry and to avert the risk of a more radical solution to the agrarian question, which was looming large on the horizon".

The result was a redistribution of some 8.5% of the country's land area to medium and small producers and the introduction of tenancy regulations giving legal status to tenants and sharecroppers on other land.⁶⁹ At the same time, beneficiaries were obliged to form co-operatives. These were seen as a means of consolidating farms to take advantage of the economies of scale that were needed for 'modern' production, and they represented a systematic attempt on the part of the State to establish tighter supervision and control of small-farmer production. An important element in this was the introduction of compulsory sales to government agencies at 'administered prices' well below those in the open market.⁷⁰

⁶⁷M. Abdel-Fadil, *ibid.*, pp. 5-6, and G.S. Saab, *Egyptian Agrarian Reform 1952-1962*, London, 1967.

⁶⁸Abdel-Fadil, *Development...*, *op. cit.*, 1975, p. 22. See also National Bank of Egypt, *Economic Bulletin*, Vol. V, No. 3, 1952, p. 167.

⁶⁹See Sayed Marei, "The Agrarian Reforms in Egypt", *International Labour Review*, vol. LXIX, No. 2, 1954, and Doreen Warriner, *Land Reform and Development in the Middle East*, London, 1957, p. 39. The tenancy regulations were in fact the more important element, since they included rent reductions, minimum wage legislation and security of tenure for very large part of the population.

⁷⁰See Samir Radwan and Eddy Lee, "The State and

Another example was that of South Korea, which undertook a series of land reforms between 1948 and 1957. In 1945 half of the country's cultivated land was controlled by only 4% of all rural families and a further 20% of the arable land was in Japanese hands.⁷¹ Tenants were in a precarious situation, and this was only made worse with the advent of civil war. With the end of the Korean war this land was appropriated and given to those who were farming it to increase production in support of the policy of industrialization and to remove rural discontent on which the communists could play.

Between 1963 and 1973 output in the industrial sector rose by 17% p.a. and industrial employment by over 9% p.a. This created a sharp increase in the demand for food, but to maintain this dynamic it was important to keep industrial wages down. Compulsory State procurement of rice and barley was retained after the war, the Government maintaining control of marketing and of the supply of 'modern' inputs to the small-farm sector.⁷² This was again in practice done by means of co-operatives. The rural sector bore the brunt of the industrialization policy through the low procurement prices that were being offered. As yields increased, so too did incomes, but not as fast as the rural cost of living. The terms of trade were turned against agriculture, and real household incomes (while rather unstable) were more or less unchanged until the 1970s.⁷³ The reforms

Agricultural Change: a Case Study of Egypt 1952-1977", in Dharam Gai, Azizur Khan, Eddy Lee and Samir Radwan, *Agrarian Systems and Development*, London, 1979, p. 169.

⁷¹Robert Morrow and Kenneth Sherper, "Land Reform in South Korea", United States Agency for International Development (USAID), *Spring Review of Land Reform*, June 1970, p. 6.

⁷²Eddy Lee, "Egalitarian Peasant Farming and Rural Development: the case of Korea", in Dharam Gai *et al.*, *Agrarian Systems...*, *op. cit.* 1979, p. 29. See also Pal Yong Moon and Byung Seo Ruy, *Korea's Agricultural Policies in Historical Perspective*, Seoul, Korean Development Institute, April 1977.

⁷³See Lee, "Egalitarian Peasant Farming...", *op. cit.*, 1979, table 2.3, p. 31 and Y.K. Ro, D.N. Adams and L.J. Hushak, "Income Instability and Consumption-Savings in South Korean Farm Households, 1965-70", *World Development*, Vol. 9, No. 2, February 1981. This trend was partly mitigated by the high level of job creation in the urban sector.

created an apparently egalitarian rural structure, but small farmers as a class were being exploited in order to meet the needs of industrialization.

In Latin America after the Cuban revolution there were again fierce debates about land reform. Governments, preoccupied with industrial development and with the need to keep 'peasant' movements under firm control, were faced with both internal and external pressure to introduce some measures of reform in the rural areas. In Chile landowners had power and patronage over small farmers and rural workers, and with a growing interest in 'modernization' there was a political battle to break this influence and gain control of the rural vote.⁷⁴ In Peru there was rural unrest in the late 1950s as repressive measures were introduced by the military government to increase its control. In the wake of this the need for agrarian reform was increasingly recognized and was to become an important element in the Government's economic strategy. The Agrarian Reform Law of 1969 expropriated large estates, broadening and consolidating the position of 'progressive' farmers operating on a small-to-medium or medium scale and forcing them to work through a State-controlled co-operative system.⁷⁵

A similar pattern can be seen in a great many other cases—in the Zamindari reforms in India, in the Taiwan reforms of the early 1950s, or the Pakistani reforms of 1959⁷⁶—reflected the needs of economic growth and of political control in the countries in question, and they were aimed at reinforcing (or at reconfirming) an already accomplished shift in the balance of power away from the traditional rural landowning class. To achieve this there was often need

⁷⁴See David Lehmann, "Agrarian Reform in Chile 1965-72: An Essay in Contradictions", in David Lehmann (ed.), *Agrarian Reform and Agrarian Reformism*, London, 1974, and James Petra and Maurice Zeitlin, "Agrarian Radicalism in Chile", in R. Stavenhagen (ed.), *Agrarian Problems...*, *op. cit.*, 1970.

⁷⁵See Ramón Zaldívar, "Agrarian Reform and Military Reformism in Peru", in Lehmann (ed.), *Agrarian Reform...*, *op. cit.*, 1974.

⁷⁶On the Taiwan case, see Raymond Apthorpe, "The Burden of Land Reform: An Asian Model of Land Reform Re-analysed", in *Development of Societies: the Next Twenty-Five Years*, The Hague, Institute of Social Studies, 1979.

for the small farmers' support. Many gained land and saw a significant improvement in their standards of living. However, this did not necessarily imply any serious interest in the poorest farmers nor any long-term commitment to offer them help. The reforms often led to another type of social differentiation and at times a swing to large-scale production in another form.

(b) *The opening-up of new land as a policy instrument*

Many land reforms of the 1950s and 1960s were important in facilitating capitalist growth, even though—particularly in Asia—a great many small farmers gained ownership of land. The advances that were made were rarely thoroughgoing and the rate at which they were implemented in practice was slower than the increasing landlessness in rural areas.⁷⁷ Population growth, concentration of land ownership in the 'modern' sector and the increasing mechanization of larger units were heightening resentments and forcing people to look for employment in other areas.

The 1960s saw a dramatic increase in urban population, to such an extent that there were often serious problems of urban congestion, poverty and violence, associated with what was to be called 'the informal sector'. There was concern with lowering the rate of rural-urban migration, and recognition that land reforms would have to be supplemented with other measures that would help to defuse potential political threats and to improve national agricultural production. There was often a very real need to produce more food, and one means of facilitating these objectives was to open up 'new lands' in 'underutilized areas'.

Since somebody (and not always the State) had a claim on the land in almost all of these areas, the dividing line between coloniza-

⁷⁷In the 1960s 1.0-1.2 million landless families acquired lands from government agencies in Latin America. This was the equivalent of about 100 000 families a year. At the same time, the number of potential beneficiaries was estimated to be 10 million families, and the growth of the rural labour force was estimated to be about 500 000 workers per year. See CEPAL/FAO, *Situation and Evolution...*, *op. cit.*, 1974, p. 107.

tion and agrarian reform was both subtle and blurred. The former was seen, and at times officially recognized, as being a practical alternative to agrarian reform.⁷⁸ In many parts of the world the good land still available was extremely limited—far more so than had been believed a decade before. In parts of Asia (Sri Lanka) and Africa (the Sahelian region) the opening up of new land was still important, but in other areas in Asia (India) and Latin America it was slowing down.⁷⁹ The process of colonization proved slow and difficult, and especially when it required irrigation facilities it also proved an expensive policy alternative.⁸⁰

Such were the costs of reclaiming semi-arid areas and controlling supplies of water that opening up new land rarely offered any real solution to the problems of overpopulated rural areas or to the extremely high rates of rural-urban migration. Colonization, rather than land reform, more aptly describes many of the changes that took place following agrarian reform in Central and South America, involving the 'spontaneous' invasion of underutilized areas or government-sponsored schemes in outlying areas.⁸¹ In Asia there were a number of large-scale projects (such as the settlement of 200 000 small farmers in the Mahaweli basin) dependent on elaborate and extremely expensive irrigation facilities.⁸² But their impact on

the structure and output of the agricultural sector (and the social and political problems contained within it) was disappointingly small.

Secondly, even in areas or regions where colonization was important, it did not always work in the interests of small producers. The costs involved and the desire to establish tight control over peasant production were such that in government-sponsored projects the earlier pattern of close supervision was firmly maintained. What emerged was often a highly centralized system of management remarkably like that of a plantation or a large corporation. One study of colonization schemes in Chile found that a large proportion (44%) of settlers on 12 projects prior to 1962 were professional people, people engaged in some form of business, people who worked with the *Caja de Colonización Agrícola* or other government agencies, or people who had been working for them at one time or another.⁸³ In Nicaragua it was common practice for livestock farmers prior to the revolution to lease areas of woodland to would-be settlers, allow them to clear the land, plant an annual crop (such as rice, maize or beans) and with it pasture. The latter took over when the crop was harvested; the land reverted back to the owner who now had a use for it, and the settlers were pushed out to "open up" areas further afield.⁸⁴ Elsewhere, despite official accounts of 'boundless resources', colonists gained little more than semi-arid or otherwise marginal 'frontier' land that offered no attraction to more powerful groups.

When it came to competition for better land, small producers and other subsistence groups were in practice physically expelled (or displaced by the use of threats) unless they had the protection and support of the Government. In many areas this was not forthcoming, and such was the concern with 'modernization' that preference was given to large-scale, capital-in-

⁷⁸This was clearly the case in Brazil, where the Government worked through an Institute of Colonization and Agrarian Reform.

⁷⁹In the first two decades of Indian planning emphasis was placed on extending the cultivated area through land reclamation, soil conservation schemes, the introduction of improved dry farming methods and irrigation. The costs were such, however, that the emphasis had to shift to introducing more intensive methods of production (see Biplap Dasgupta, *Agrarian Change and the New Technology in India*, United Nations Research Institute for Social Development (UNRISD), Geneva, 1971, pp. 16-17. In Latin America the harvested area increased by 2.6% p.a. in the first 5 years of the 1960s and by 1.3% p.a. in the next 5 years, but in the first 5 years of the 1970s it was increasing by only 0.5% p.a. (see CEPAL/FAO, *Situation and Evolution...*, *op. cit.*, 1974, p. 101).

⁸⁰See Michael Nelson, *The Development of Tropical Lands*, Baltimore, 1973, and IBRD, *Agricultural Land Settlement*, A World Bank Issues Paper, Washington, D.C., January 1978, p. 5.

⁸¹William Thiesenhusen, "Colonization: Alternative or Supplement to Agrarian Reform", in Peter Dorner (ed.), *Land Reform in Latin America: Issues and Cases*, Land Tenure Center, Wisconsin, 1971.

⁸²See D. Dunham, "The Politics...", *op. cit.*

⁸³W. Thiesenhusen, "Colonization...", *op. cit.*, 1971, footnote 2 on p. 211.

⁸⁴James Taylor Jr., *Agricultural Settlement and Development in Eastern Nicaragua*, Land Tenure Center, Wisconsin, 1969. On this subject see also Orlando Fals Borda, *La cuestión agraria en Colombia*, Bogotá, 1976, and his discussion of "la ley de los tres pasos". A comparable example of this process can be seen in the Oriente Region of Bolivia.

tensive forms of production. "There is evidence", wrote one observer of the Brazilian case in the mid-1970s,⁸⁵ "that large companies attempting to 'develop' Amazonia are pre-empting peasants' attempts to settle the region, and in some cases evicting 'squatters' who have lived there for generations".

Similar cases of displacement on varying scales can be observed in the Llanos Orientales of Colombia,⁸⁶ in the Sahelian region,⁸⁷ on Mindanao,⁸⁸ and in the north-eastern lowlands of Ethiopia.⁸⁹ In fact it seems to have been a fairly typical feature of 'frontier' development, with little concern for the small farmers, subsistence cultivators or nomadic pastoralists living in these areas.

And yet, it would be wrong to give the impression that the opening-up of new lands was invariably characterized by physical displacement or savage exploitation of subsistence cultivators and nomadic herdsmen. This has often occurred. But in many other cases small farmers have managed to gain access to land, and many of them have prospered as a result. The more important point is that opening up new lands could never offer a lasting solution to the serious agrarian problems in other parts of the country. To some extent it provided a safety valve by making available more land and creating more employment, but more generally (and more significantly) it served a political function by giving governments time and by helping them meet the conditions of aid-donor countries.

(c) 'Modernization' of agricultural production

The third policy line was the 'moderniza-

tion' of production in the areas already in use. This was to be a principal thrust of policy from the 1960s: an effort on the part of advanced capitalist and Third World countries to raise the agricultural productivity of the latter by introducing 'advanced' mechanical equipment, 'modern' inputs and 'modern' management methods. This shift to more commercialized forms of agricultural production was to be promoted through a system of subsidized prices, by ensuring that the capital needed was made available (through agricultural development banks, farmers' associations or co-operatives), with the Government providing infrastructure, advice and supervision as and when it was needed.

In this way producers would gain access to new technology, the market for farm equipment and for manufactured inputs could be extended, and the increased purchasing power of rural areas would widen the market for manufactured consumer goods. However, when it came to intensifying production in existing areas the influence of agrarian structures was invariably strong.

The mechanization of large-scale agriculture and the increased use of new seeds and other inputs that characterized the so-called 'Green Revolution' involved different processes, and yet they reflect a great many features in common. Both saw the involvement of large-scale (and generally foreign) commercial interests. Mechanization entailed the transfer of established, relatively capital-intensive farm technologies from Europe and North America to Third World locations. With the possible exception of Argentina (and in the view of certain authorities parts of Brazil), the mechanization of agriculture in Latin America has been promoted and guided by business interests with much use of credit to speed up its adoption: they showed little interest in adapting equipment to local conditions, and even less to promoting its use on smaller farms or in different systems of agricultural production.⁹⁰

This mechanization had a considerable

⁸⁵Martin Katzman, "The Brazilian Frontier in Comparative Perspective", *Comparative Studies in Society and History*, Vol. 17, No. 3, 1975, p. 282.

⁸⁶Over the last decade several examples of this can be found recorded in the main Colombia daily newspapers *El Tiempo* and *El Espectador*.

⁸⁷See Comité d'Information Sahel, *Qui se Nourrit de la Famine en Afrique?*, Paris, 1975, and Claude Meillassoux, "Development or Exploitation: is the Sahel Famine a Food Business?", *Review of African Political Economy*, Vol. 1, No. 1, 1974.

⁸⁸K. Griffin, *Agrarian Policy...*, *op. cit.*, 1973, p. 9.

⁸⁹Lars Bondestam, "People and Capitalism in the North-Eastern Lowlands of Ethiopia", *Journal of Modern African Studies*, Vol. 12, No. 3, 1974.

⁹⁰CEPAL/FAO, *Situation and Evolution...*, *op. cit.*, 1974, p. 105. On this trend see also CEPAL/FAO, *La expansión selectiva de la producción agropecuaria en América Latina*, E/CN. 12/378/Rev. 2 (United Nations publication, Sales No.: 1957. II. G. 4).

amount of government support. In the mid-1960s over a third of loans granted by the Agricultural Development Bank in Pakistan were for the purchase of tractors and other mechanical equipment.⁹¹ The Government of India adopted a liberal stand on the import of tractors, and in turn encouraged their local production in co-operation with multinational firms.⁹² Not only tractors but also power tillers, combined harvesters, mechanized threshers and irrigation facilities of various kinds were purchased from international commercial concerns on government credit.

Nor have the inputs associated with the 'Green Revolution' been any more divorced from commercial pressures. New strains of wheat and rice were developed with the support of the Rockefeller and Ford Foundations, and promoted by an aid lobby in which commercial interests of various kinds were well represented.⁹³ In Jalisco, Mexico, the U.S. Agency for International Development (USAID) looked for ways in which foreign private investment could provide the necessary inputs for small producers and then market their product (in this case maize).⁹⁴ The ESSO company was engaged in the distribution of fertilizers in the Philippines, and efforts were made to promote foreign investment in fertilizer production in other parts of the world.⁹⁵

North American and European agribusiness had the interest and the capital as well as the technology to provide the equipment and the inputs to bring about modernization of agricultural production. In many (though by no means all) countries, the emerging policy was to be 'good for business'; profit motives influ-

enced views as to what should be done, often to the disadvantage of the small producers.⁹⁶

Secondly, the cost of 'modern' equipment, irrigation facilities and other inputs was such that, regardless of the attitudes of the suppliers, they were confined to a comparatively small proportion of the nation's producers. Access to credit (and thereby to new technology) was in general so costly, or at least so restricted, that the medium-sized and large farmers were the main beneficiaries. In India in the early 1970s the price of a Hindustan 35HP tractor was Rs 27 000 and a Massey-Ferguson Rs 35 000, if they could be obtained. This was some thirty to forty times the net annual income to be derived from a five acre farm operated with bullocks in parts of the Punjab.⁹⁷

Large farmers used their influence to acquire loans and to move up or bypass the waiting lists, and those who were able to obtain equipment and inputs saw an increase in yields and, in turn, of income. In the Punjab one study found the average net income per hectare in canal irrigated areas to be Rs 459 on farms using bullock power, and Rs 923 on those using tractors.⁹⁸ No doubt these farms differed in more ways than just the level of mechanization, but statistics of this kind do serve to show the differentiation occurring in particular areas and the widening gap in income and wealth between those who 'modernized' their production and those who could not.

In areas of sharecropping or tenant farming the prospect of higher profits led landlords to show greater interest in commercial production. No doubt this has helped smaller farmers get access to inputs by way of their landlord, but it also resulted in many areas in the latter taking decisions about land use, varieties to be

⁹¹Keith Griffin, *The Political Economy of Agrarian Change*, London, 1974, p. 53.

⁹²Biplap Dasgupta, *Agrarian Change and the New Technology in India*, United Nations Research Institute for Social Development, Geneva, 1977, p. 98.

⁹³The International Centre for the Improvement of Maize and Wheat (CIMMYT) in Mexico and the International Rice Research Institute (IRRI) in the Philippines were both set up under the auspices of United States foundations.

⁹⁴H. Cleaver, *The Contradictions...*, *op. cit.*, 1972, p. 90.

⁹⁵*Ibid.* Efforts were made to encourage foreign investment in fertilizer production in India.

⁹⁶The enormous profits sometimes ascribed to these enterprises were by no means assured, though there seems little doubt that there was often a considerable amount of money to be gained from the sales of equipment, licenses and inputs of various kinds.

⁹⁷A.S. Kahlon and S.S. Grewal, "Farm Mechanisation in a Labour Abundant Economy", *Economic and Political Weekly*, 13 May 1972.

⁹⁸A.S. Kahlon, S.S. Miglani and S.K. Metha, *Studies in the Economics of Farm Management, Ferozepore District (Punjab)*, New Delhi, Ministry of Agriculture, 1972.

grown and the inputs used.⁹⁹ In such cases the tenant became more a farm worker than an independent farmer, and tenancy was merely a convenient arrangement enabling the landlord to pass on production risks. In West Godavari rents paid by sharecroppers in the dry season more than doubled with the introduction of high-yielding varieties, and the net share of the tenant suffered a marked decrease.¹⁰⁰ In other areas (for example parts of Java) small-holdings were increasingly leased to 'progressive' farmers and there was a mounting concentration of control (if not necessarily of ownership) of tenanted land.¹⁰¹ In yet other areas owners took back their land from tenants to cultivate it themselves or to give it to sons, increasing the numbers of landless people.¹⁰² In all these cases institutional arrangements made it extremely difficult for small farmers to improve their relative position.

In the view of some, the overall result was essentially a negative one. The efforts made were cynically dismissed as "a systematic and coordinated effort to organise a 'pampered', small, efficient and highly subsidised sector of rich landowners and producers".¹⁰³ And certainly there is evidence to that effect. Policies showed a definite 'landlord bias'.¹⁰⁴ The cases of India and Pakistan have already been cited, but in countries with more conservative political regimes the situation was often a good deal worse. In Iran an Agricultural Development

Fund was established in 1968 to finance large-scale production on highly mechanized farms and to assist agribusiness in bringing this about. The minimum loan available was US\$ 67 000 (five million rials), well beyond the dreams of any small farmer. The Banco do Brasil for its part, was offering at that time a minimum loan of some fifty times the annual earnings of an industrial worker.¹⁰⁵

Loans for new seeds and 'modern' inputs were naturally lower, and credit was available in smaller amounts. Its provision was an essential part of 'modernization' programmes, but who acquired it was really the important issue.¹⁰⁶ Generally speaking it was the medium-sized or large farmer who could better afford to experiment with new varieties and to try expensive inputs.¹⁰⁷ These people were normally (though not always) the first adopters, and it was they who were likely to take advantage of the subsidized prices designed to encourage farmers to 'modernize' their production.

Small farmers saw that they could raise their output and hence their income, and the technology spread.¹⁰⁸ As it did, so the cost of subsidizing the growing quantity of inputs needed also increased: it became an increasing burden upon the exchequer, and it was often reduced (or even removed) just as small farmers were adopting these new techniques.¹⁰⁹ Since small farmers were more likely to sow the whole of their plot with new varieties, when the subsidy declined (and the petroleum crisis raised the price of chemical fertilizers) it was they who found themselves in the most vulnerable position.¹¹⁰

⁹⁹On this see K. Griffin, *The Political Economy...*, *op. cit.*, 1974.

¹⁰⁰G. Parthasarathy, "West Godavari: Andhra Pradesh", in IRRI, *Changes in Rice Farming in Selected Areas of Asia*, Manila, 1975, p. 66.

¹⁰¹Ingrid Palmer, *The New Rice in Indonesia*, United Nations Institute for Social Development (UNRISD), Geneva, 1976, pp. 137-138.

¹⁰²Jean G. Rosenberg and David A. Rosenberg, *Landless Peasants and Rural Poverty in Indonesia and the Philippines*, Cornell University Rural Development Committee, Ithaca, N.Y., February 1980, pp. 29 f.

¹⁰³Ernst Feder, "The New World Bank Programme and the Self-Liquidation of the Third World Peasantry", *Journal of Peasant Studies*, Vol. XIX, Nos. 1-2, 1974, p. 348, and Ernst Feder, "Agribusiness and the Elimination of Latin America's Rural Proletariat", *World Development*, Vol. 5, Nos. 5-7, 1977. On the package approach, see also Emiliano Ortega, "Peasant agriculture in Latin America: situations and trends", *CEPAL Review*, No. 16, April 1982, pp. 75f.

¹⁰⁴See K. Griffin, *The Political Economy...*, *op. cit.*, 1974.

¹⁰⁵K. Griffin, *Agrarian Policy...*, *op. cit.*, 1973, pp. 10f.

¹⁰⁶On the importance of credit as a part of the "package" arrangements that were being made see United States Agency for International Development (USAID), *Spring Review of Small-Farmer Credit*, Vol. XIX, June 1973.

¹⁰⁷On this see K. Griffin, *The Political Economy...*, *op. cit.*, 1975; Dasgupta, *Agrarian Change...*, *op. cit.*, 1977; IRRI, *Changes in Rice Farming...*, *op. cit.*, 1975; and ARTI, *The Agrarian Situation Relating to Paddy Cultivation in Five Selected Districts of Sri Lanka* (five volumes and main report), Colombo, 1975.

¹⁰⁸On this pattern of diffusion of innovations see the UNRISD studies on the 'Green Revolution'.

¹⁰⁹IBRD, *World Bank Operations*, *op. cit.*, 1972, p. 17.

¹¹⁰The tendency for small farmers to adopt innovations later and to sow the whole of their area with new varieties is noted in IRRI, *Changes in Rice Farming...*, *op. cit.*, 1975.

This is not to say that small farmers were always exploited or that 'modernization' only served the interests of a privileged class of medium-sized and large farmers. In India alone it has been estimated that as many as six million small-farmer households may have benefitted from the efforts of the Small Farmer Development Agency, and that there was at times as much as a 33% increase in household income.¹¹¹ These figures may (to say the least) be rather flattering, but they serve to give an encouraging indication of the scale on which benefits have occurred.

The point is that the proportion of small farmers involved was, with the exception of certain areas, extremely small. In India there were over 70 million rural households who qualified as 'small farmers' under the definitions of the Small Farmer Development Agency.¹¹² Secondly, the 'Green Revolution' was at best a wheat and a rice 'revolution'; it was introduced to relatively few and comparatively small regions, and it only applied to certain parts of the world. Very little was done for the development of tubers.

Thirdly, 'modernization' in practice meant promotion of commercialized agriculture. The logic of the process was such that it led to increasing economic and social differentiation. New techniques were introduced into an already unequal agrarian structure and they inevitably had an unequal impact within the community. It was easier for officials to work with those who had power than to work against them; it was easier to deal with larger-scale farmers than to work with a mass of illiterate small producers, and this also created a bias in delivery systems.¹¹³

And yet, from the point of view of a govern-

¹¹¹ Reserve Bank of India, *Marginal Farmers and Agricultural Development Agencies: a Field Study*, Bombay, 1976. On the income estimates see Raj Krishna, "Small Farmer Development", *Economic and Political Weekly*, 26 May 1979.

¹¹² The Indian *Agricultural Census 1970-71*, quoted in Krishna, "Small-Farmer Development", *op. cit.*, 1979, p. 913.

¹¹³ On this subject see for example L. Cliffe, J.S. Coleman and M.R. Doornbos (eds.), *Government and Rural Development in East Africa*, The Hague, 1977, and S. Williams and J.A. Miller, *Credit Systems for Small-Scale Farmers: Case Studies from Mexico*, Austin, Texas, 1973.

ment's underlying objectives this policy of agricultural modernization was not necessarily unsuccessful as far as it went. In global terms there was no marked increase in output per capita.¹¹⁴ Once the people in these pockets of 'modern production' were more or less saturated with modern inputs and modern technology, the growth in the rate of output began to drop off. 'Traditional' agrarian structures re-emerged as a barrier to continuing this rate of growth.

But in particular areas the gains were often considerable, and sometimes sufficient to have had some impact in macro terms. This was true in the Punjab and in large parts of the Philippines. More generally, this policy gave land to many small peasants and increased incomes while strengthening a class of 'progressive' farmers whose economic and political interests were generally in tune with those prevailing at the national level. The introduction of 'landlord-biased' or at least 'progressive-farmer-biased' innovations created or strengthened a class of rural producers who were loyal to (and dependent on) the government in power: a class which had considerable influence in rural areas (though not enough to pose a political threat), and whose interests generally favoured the *status quo*. In this sense these policies served these governments' interest in 'political stability'.

The culmination of this 'modernization' era: the 1970s

The situation by the middle of the 1970s was by no means a promising one. There had been no great breakthrough in agricultural development as a result of this modernization and the 'Green Revolution'. On the contrary, in all parts of the Third World except the Far East the rate of growth in agricultural output was slower than it had been in the previous decade.¹¹⁵ In no region had there been any real acceleration in food production of sufficient dimensions to influence macro figures of the type that are

¹¹⁴ K. Griffin, *Agrarian Policy...*, *op. cit.*, 1973, p. 3.

¹¹⁵ See K. Griffin, *The Political Economy...*, *op. cit.*, 2nd ed., 1979, pp. 4f.

regularly issued by the FAO.¹¹⁶ What is more, in certain areas —most notably the Sahel— food production and marketing seemed an almost desperate issue.

In most areas the situation continued to be one in which large farms, often run with the use of 'sub-optimum' methods, were predominant.¹¹⁷ The advances made in land reform had been far slower than the rate of increasing landlessness, and the opening-up of new land was not only limited, but difficult and expensive. Nor had everyone gained from the process of 'modernization'. In fact it seemed quite likely that the vast majority of small peasant producers were not included in it. The process resulted in new forms of differentiation: often it led to the concentration of land (or of control of land), and at times it was creating landlessness, raising unemployment and increasing poverty.

With the displacement of small producers from the better soils and high rates of population growth in poor rural areas there had emerged an increasingly marginalized population 'dumped' into a *minifundio* (or subsistence) type of production.¹¹⁸ Problems of unemployment had become very severe, and by the 1970s the causal tie with absolute poverty had been clearly discerned.¹¹⁹ Many people

were living in precarious circumstances.¹²⁰ The situation was frequently one of considerable social tension, resulting in protest movements, at times in violence, and often in resort to repressive measures.¹²¹

Although these were often no more than pockets of disturbance, a number of other factors were beginning to play a significant role and were putting events in a somewhat different light. First was the sharp increase in the price of oil and of oil derivatives, including chemical fertilizers. Secondly, there was an increase in world food prices, and with a series of droughts and biased distribution systems shortages of food were recorded in many parts of the world. Thirdly, there was at the same time a general decline in the price of many Third World export crops on international markets. The need for food imports was often of such proportions that balance of payments problems loomed high on the horizon; there was fear of Cuban and Russian influence in parts of Africa and of communist influence extending outwards from Indo-China, and in this context small-farmer policies (and particularly those that were oriented towards food production) were considered of greater importance to the capitalist world.

II

Since the 1950s shifts in the emphasis of thinking on economic policy have been reflected in the position adopted by the World Bank Group,

the United States Agency for International Development (USAID), FAO, the Asian Development Bank (ADB), the Inter-American Development Bank (IDB) and other bilateral and multilateral 'development' agencies.¹²² Their

¹¹⁶ Mos notably *The State of Food and Agriculture* reports.

¹¹⁷ Regarding the situation in Latin America, see CEPAL/FAO, *Situation and Evolution...*, *op. cit.*, 1974.

¹¹⁸ See for example, CEPAL/FAO, *Situation and Evolution...*, *op. cit.*, 1974; Orlando Fals Borda, *El hombre y la tierra en Boyacá: Desarrollo histórico de una sociedad minifundista*, revised edition, Bogotá, 1973; Emilio Klein, *Diferenciación social: Tendencias del empleo y los ingresos agrícolas*, PREALC, Santiago, 1980; K. Griffin, *Land Concentration and Rural Poverty*, London, 1976; and ILO, *Poverty and Rural Landlessness...*, *op. cit.*, 1977.

¹¹⁹ See for example CEPAL, "Basic Aspects of Latin American Development Strategy", *Economic Survey of Latin America*, 1969, pp. 3-42 (United Nations publication: Sales N.º E.71.II.G.1); and CEPAL/ILPES, *The State of Planning in Latin America and the Caribbean*, Guatemala, 1980, pp. 198f.

¹²⁰ FAO, *Perspective Study...*, *op. cit.*, 1972, pp. 1-10; and Arvind Das and V. Nilakant (eds.), *Agrarian Relations in India*, New Delhi, 1979.

¹²¹ See, for instance, evidence of clashes between small farmers and farm workers on the one hand and landlords and police on the other in Bihar and Andhra Pradesh in the *Economic and Political Weekly* (for example 14 January and 22 April 1978 and 7 July, 22 October and 17 November 1979). On the question of repression see Mohan Ram, "Mini-Emergencies to Suppress the Poor", *Economic and Political Weekly*, 18 November 1978.

¹²² See IBRD, *World Bank Operations...*, *op. cit.*, 1972; IBRD, *The Assault...*, *op. cit.*, 1975; IBRD, *Annual Reports, 1972-1979*; FAO, *Small Farmer Development Manual*, Bangkok, 1978; ADB, *Asian Agricultural Survey*, Manila,

individual stances have been very similar, partly because of the strength of advanced capitalist nations in voting rights and policy-making, partly because of co-operative and co-financing arrangements between the agencies, and partly because of the paradigm that they used in common. And underlying all of this has been the fact that they were part of the capitalist world's response to economic and political conditions in Third World countries. They were an adjustment to facilitate the process of capitalist growth.

From the mid-1950s the United States provided a major share of all foreign aid transfers to Third World countries. A decade later Washington was viewing the political situation with a certain urgency and, in the cold war years of the 1960s, a sustained United States commitment to increased aid became part of the counter-offensive against communist influence, compatible with the need for protecting United States interests, promoting and protecting that country's investments and markets, supporting its allies in Third World countries and strengthening United States national security.¹²³ In 1970, with events in Vietnam coming to a head, USAID funding to South Vietnam (with a population of 15 million) were notably larger than those to India (with 600 million) or indeed to Latin America as a whole.¹²⁴ Aid was clearly linked to foreign policy, just as, for example, French and British aid programmes reflected ties to former colonies and Commonwealth countries.

At the same time, with changing economic strategies in the 1950s and 1960s there was widening scope for European, Japanese and North American involvement by providing technology, managerial skills and capital investment. This could not be financed by pri-

vate capital alone, nor could individual governments always provide the infrastructure and necessary incentives to promote this expansion without a greater degree of external aid. There was an increase in the flow of resources from international lending institutions, the establishment of which had to a large extent been predicated on the idea of facilitating capitalist expansion while avoiding the overt political interest inherent in the notion of bilateral aid.¹²⁵

In the World Bank and the regional development banks, voting power was linked to the size of each member country's contribution, and the relative strength of the advanced capitalist countries was such as to ensure that their interests were met within this new structure.¹²⁶ In 1964, in the case of the IDB Fund for Special Operations, the United States was able to impose conditions ensuring that its increased contributions could only be used for purchases in the USA, and that such goods must be transported in United States-registered ships.¹²⁷ Under the Bank ruling that a two-thirds majority was required for all decisions affecting the Fund, the United States, which controlled some 40% of the total vote, had an effective veto of moves that it did not approve.¹²⁸ In 1972 the so-called 'Gonzalez Amendment' authorizing United States contributions to the IDA, IDB and the ADB laid down that United States Executive Directors in these agencies should vote against any loans or other forms of utilization of funds that were considered to run counter to that country's interests.¹²⁹ Political controls were built into the logic and operation of these institutions.

What is more, while an increasing number of bodies was involved, they were not acting independently of one another. The World Bank established a co-operative programme with the

1969; ADB, *Rural Asia: Challenges and Opportunities*, Singapore and New York, 1978; ADB, *Annual Reports* and IDB, *Annual Reports*.

¹²³See Abraham Lowenthal, "Alliance Rhetoric Versus Latin American Reality", *Foreign Affairs*, April 1970, pp. 495 and 496.

¹²⁴In the fiscal year 1970 USAID flows to South Vietnam totalled US\$ 366 million, those to India came to US\$ 244 million, and for Latin America as a whole the figure was US\$ 254 million. USAID, *Fiscal Year 1970 Operations Report*, Washington, D.C., 1970, p. 5.

¹²⁵See for example Sidney Dell, *The Inter-American Development Bank: A Study in Development Financing*, New York, 1972, chap. 1.

¹²⁶*Annual Reports* of the IBRD, IDB and ADB.

¹²⁷S. Dell, *The Inter-American Development Bank...*, *op. cit.*, 1972, p. 114.

¹²⁸R. Peter Dewitt, "The Inter-American Development Bank and Policy-Making in Costa Rica", *Journal of Developing Areas*, Vol. 15, No. 1, 1980.

¹²⁹Aart van de Laar, *The World Bank and the Poor*, The Hague, 1980, pp. 76-79.

FAO in the identification and preparation of its rural projects. Roughly a third of its agricultural lending was prepared in this way, with FAO staff working within the parameters of the Bank's lending policy.¹³⁰ Similar arrangements were made with WHO, UNESCO and UNDP, and the Bank embarked on a programme of co-financing with regional bodies. One result of this external influence and interlinkage was that no effective 'alternative view' was likely to emerge.

In all these institutions there was a gradual shift in policy emphasis over time, reflecting a continual reassessment of the perceived needs for capitalist expansion in terms of agricultural output and political stability. This can be seen in the changes that have taken place in World Bank policy, with its gradual move towards agriculture and 'the rural poor'. In the postwar era World Bank policies emphasized 'infrastructural development'. Agriculture accounted for only a small proportion of the Bank's total lending (8.5% up to 1963): the majority of this was on capital-intensive infrastructure (such as large-scale dams and irrigation systems), and it unashamedly pursued a *laissez-faire* notion that its task was to open the way for private investments.¹³¹ A significant proportion of the loans made during this period were clearly intended to meet the needs of large landowners.¹³²

Between 1964 and 1968, the share of total lending destined for agriculture increased (to 12.6%) with emphasis on the export sector and

on livestock production.¹³³ This sector was frequently characterized by large-scale (even foreign) ownership,¹³⁴ and again if often contained a large irrigation component.¹³⁵ However, with agriculture increasingly seen as a 'bottleneck' holding back industrialization and 'economic development', the Bank also began to turn its attention to the need to promote technological change at the farm level through the provision of improved seeds, fertilizers and modern equipment.¹³⁶ Policies began to be viewed in a broader perspective, covering credit, road construction, processing industries and, to a lesser extent, education and health facilities.¹³⁷

Between 1969 and 1973, with mounting evidence of the landlessness, differentiation and pauperization produced in the wake of the so-called 'Green Revolution', and with an increasing threat of rural social unrest, there was a shift in the emphasis of World Bank policy towards the eradication of poverty as against growth *per se*, and to employment creation rather than simply an increase in gross national production.¹³⁸ By the 1970s, Ul Haq was openly talking of injecting distributional issues "into the very pattern and organisation of production".¹³⁹ However, the stress was still quite clearly on non-food crops, and this was even true in the case of food-deficit countries.¹⁴⁰ By

¹³⁰Cheryl Payer, "The World Bank and Small Farmers", *Journal of Peace Research*, Vol. XVI, No. 4, 1979, and Rosemary Galli, "The UNDP, 'Development' and Multinational Corporation", *Latin American Perspectives*, Vol. 4, No. 4, 1976.

¹³¹IBRD, *The Assault...*, *op. cit.*, 1975, annexes 8 and 9, pp. 84-85, and chap. 3, pp. 58f. The total sum loaned was US\$ 436 million. See Richard Stryker, "The World Bank and Agricultural Development: Food Production and Rural Poverty", *World Development*, Vol. 7, No. 3, 1979, John Adler, "The World Bank's Concept of Development", in Jagdish Bhagwati and Richard Eckaus (eds.), *Development and Planning*, London, 1972, pp. 34-36, and on IDB policies, S. Dell, *The Inter-American Development Bank...*, *op. cit.*, 1972, p. 129.

¹³²The Bank's 'dogmatic preference' for private ownership and private enterprise is stressed by R. Stryker, *The World Bank...*, *op. cit.*, 1979, pp. 326f. See also Feder, *The New World Bank Programme...*, *op. cit.*, 1976, p. 344.

¹³³Between fiscal years 1961-1965 and 1966-1970 loans for livestock production increased from US\$ 35.3 million to US\$ 252.4 million. Loans for non-food crops increased from US\$ 2.8 million to US\$ 86.8 million. Together, their share rose from 8% to 28% of agricultural loans (IBRD, *The Assault...*, *op. cit.*, 1979, p. 327).

¹³⁴R. Stryker, *The World Bank...*, *op. cit.*, 1979, p. 327.

¹³⁵Between the fiscal years 1966 and 1970 irrigation accounted for 43% of all agricultural loans. This was less than the 79% recorded over the previous five financial years, but it was still considerable (IBRD, *The Assault...*, *op. cit.*, 1975, annex 9, p. 85.)

¹³⁶*Ibid.*, p. 59.

¹³⁷*Ibid.*, pp. 58f.

¹³⁸*Ibid.*, p. 60; and R. Stryker, *The World Bank...*, *op. cit.*, 1979, p. 328.

¹³⁹M. Ul Haq, *The Poverty Curtain...*, *op. cit.*, 1976, p. 34.

¹⁴⁰S. J. Burki and T. J. Goering, *A Perspective on the Foodgrain Situation in the Poorest Countries*, World Bank Staff Working Paper No. 251, April 1977, p. 41. The experience of the Sahelian zone during this period appears to have been a clear-cut example of this. See Comité d'Information Sahel, *Qui se Nourrit...*, *op. cit.*, 1975.

this time agriculture accounted for some 19% of total Bank lending.¹⁴¹

With the world food crisis, and with high and increasing rates of unemployment, attention was turned to food production and the small producer. The total amount loaned increased dramatically (from US\$ 12 700 million over the fiscal years 1969-1973 to US\$ 32 320 million over the period 1974-1978); and the share of this devoted to agriculture rose sharply (to 31%), with roughly half the agricultural lending going to projects for domestic food production.¹⁴²

In short, the changing emphasis of World Bank policy followed closely shifts in the interpretation of 'development policy' as seen from the vantage point of the advanced capitalist nations. The emphasis on the poor and on food production was a response to a deteriorating food situation, and it followed closely on the passing of the US Foreign Assistance Act of 1973, which reflected the growing concern of the United States Government over the risk of 'internal subversion' in Third World countries.¹⁴³ The policy that was to emerge was such as to provide greater control of peasant producers, hitherto seen as 'the great unknown' of the national economy and as an area of potentially dangerous social unrest. By commercializing this sector, it was gradually brought into the realm of government planning.

The technocratic rationale behind the policies of the World Bank and similar institutions hinged on two central factors —the imbalance between agricultural output (especially food production) and population growth, and the inefficiency of existing agrarian structures in terms of productivity per hectare and employment creation. The first of these focussed attention on the low (and declining) rate of growth in per capita (food) production, and the

second stressed the underutilization of land and the constraints imposed by prevailing ownership and tenure patterns. Both had to be seen against the economic and political situation of the early 1970s and conventional interpretations of the problems involved.

The logic of their argument was in essence the following. To reduce rural poverty, policies had to raise the level of production and productivity in the small-farm sector. In the World Bank's view, what was needed was a doubling of the rate of growth in output from this sector from 2.5% p.a. by 1985.¹⁴⁴ This would enable farmers to double their annual output by the end of the century, halting the disparity in income distribution and starting to reduce it by the 1990s.¹⁴⁵

How this was to be achieved was of course the important issue. As McNamara himself remarked in his Nairobi speech:¹⁴⁶ "a 5% rate of growth has never been achieved on a sustained basis among small-holders in any extensive areas of the developing world".

An expansion of these proportions in the small-farm sector could only be achieved with a high rate of technical innovation, and more particularly through the increased use of purchase inputs and the provision of adequate infrastructural support.¹⁴⁷ What was proposed was basically a 'package' solution aimed at 'target groups' of the rural poor. This view was subsequently repeated in the Manila Declaration, which saw the small farmer as 'the backbone of agriculture'.¹⁴⁸

¹⁴⁴The United Nations/FAO World Plan for Agricultural Development has estimated that for food production to rise by 4.3% p.a. between 1967 and 1985 to meet domestic demand, the marketable surplus would have to rise by some 5-6% p.a.

¹⁴⁵McNamara's Nairobi Address. For a summary see IBRD, *The Assault...*, *op. cit.*, 1975.

¹⁴⁶*Ibid.*

¹⁴⁷IBRD, *World Bank Operations...*, *op. cit.*, 1972, p. 6; IBRD, *Annual Report*, 1975, pp. 16f. This strategy was never in fact made precise, and there was no solid and detailed elaboration of it. On the contrary, the Bank maintained that "there is no universal formula that prescribes the right mix, or the most effective sequence of activities to raise the incomes of the rural poor" (*The Assault...*, *op. cit.*, 1975, p. 18). On the 'package' approach see IBRD, *ibid.*, pp. 8 and 40f.

¹⁴⁸Manila Declaration on Food and Agriculture, Thirteenth FAO Regional Conference for Asia and the Far East, Manila, 5-13 August 1976.

¹⁴¹IBRD, *Annual Report*, 1974, p. 13.

¹⁴²See R. Striker, *The World Bank...*, *op. cit.*, 1979, p. 327, and IBRD, *Annual Report*, 1977 and 1978. In real terms this was in fact considerably more than the target that McNamara had projected in his Nairobi speech. It almost doubled (in real terms) relative to the previous 5 years, and it was some 35% higher than he had anticipated (IBRD, *Annual Report*, 1979, pp. 17-18).

¹⁴³A. Van de Laar, *The World Bank...*, *op. cit.*, 1980, p. 78.

The Bank adopted the view that the efficiency of the small farm had been seriously misconceived: in point of fact small-farmer production was labour-intensive, it offered a higher output per unit of land, and it was more efficient in the use of on-farm resources. As higher yielding varieties increased the number of production cycles, the employment that was generated in any one year would be that much greater. In this way the strategy was believed to be particularly well suited to meeting the needs of Third World development.

At the same time it was recognized that existing agrarian structures were part of the problem, that they were likely to hamper policies aimed at the poor, and that land reform was an increasingly pressing issue. "The more secure producers", it was argued in justification,¹⁴⁹ "tend to invest part of their higher earnings in their holdings—thus raising the level of investment in agricultural production—whereas absentee landlords frequently invest in off-farm activities". Earnings would be higher because less was tapped off by landlords and because security of tenure favoured better production methods. But even so, it was clearly recognized that achieving this was unlikely in practice to prove sufficient without a complementary readjustment in the input delivery system and in marketing facilities.¹⁵⁰ This in turn led to the view that a 'comprehensive' or 'integrated' approach was what was required.

Such was the basic philosophy of the new approach to small-farmer policies. The poor were poor, not because they had been marginalized by the activities of richer farmers and of agribusiness, but because they had been left behind by the process of 'economic development'. Subsistence farming was taken to be more or less synonymous with poverty, and emphasis was placed on new technology and increasing government intervention "to bring this silent or passive majority into the main-

stream of economic growth and social progress".¹⁵¹

The World Bank, as we have seen, made much of its small-farmer emphasis; the resources it channelled to agriculture (US\$ 10 018.6 million between 1974 and 1978) were very impressive, and in 1978 it proudly announced with regard to its small-farmer policy that "all the targets set have been achieved".¹⁵² How, then, should this be interpreted? Certainly it could not be taken to mean that the problems of rural poverty had markedly lessened. What had happened was that the political fears of the early 1970s had not materialized, and attention was shifting to the more volatile problem of the urban poor.¹⁵³

In analysing what was happening it seems important to maintain a careful sense of perspective. For example, while the flow of funds available to agriculture through multilateral agencies rose quite dramatically, the total flow of aid to the sector increased at a slower rate, reflecting the shift away from bilateral aid.¹⁵⁴ At the same time, the agencies retained a steady (if not growing) interest in agro-industry and large-scale agro-commercial concerns. An analysis of the loans and equity investments of the International Finance Company (IFC)—itself a member of the World Bank Group—shows a definite interest in agribusiness, and the total investments in agro-industry which it co-financed showed a gradual rise.¹⁵⁵ It was by no

¹⁵¹ADB, *Rural Asia...*, *op. cit.*, 1978, p. 216. A similar thrust can be found in the writings of the other development banks and of the relevant United Nations organizations.

¹⁵²IBRD, *Annual Report*, 1978, p. 18.

¹⁵³This can be seen from the IBRD, *Annual Report* 1979, pp. 22f. The growing concern with problems of urban poverty is clearly visible in the Bank's Annual Reports from 1977 onwards.

¹⁵⁴In Asia, for example, aid from multilateral agencies increased fourfold between 1969 and 1974 but total aid flows rose by the much lower (though still significant) figure of 59%. ADB, *Rural Asia...*, *op. cit.*, 1977, table IV-1.1, p. 296.

¹⁵⁵From its establishment in 1956 to 1977 only some 4% of total IFC commitments went to food or food processing firms. At the end of this period McNamara was looking to a new phase of IFC expansion in precisely this area, and Henri Bedie was appointed special adviser to see this through. The proportion of its total investment channelled to agro-industry in the fiscal year 1980 rose to almost 15%, and the IFC *Annual Report* for 1979 predicted that

¹⁴⁹IBRD, *The Assault...*, *op. cit.*, 1975, p. 223.

¹⁵⁰FAO, *Small-Farmer Development Manual...*, *op. cit.*, 1978, p. 156; IBRD, *The Assault...*, *op. cit.*, 1975, pp. 161f, and ADB, *Annual Report* for 1979, p. 28.

means the case that there was a sustained and all-out effort at small-farmer development.

Even within the small-farm sector Bank figures themselves reveal that less than a quarter of World Bank loans (three-quarters of the 31% devoted to agriculture) were channelled into rural development projects *with a small-farmer component*, and that in these projects almost half of the direct benefits went—on its own admission—to other groups.¹⁵⁶

An analysis of the approved projects contained in the World Bank's Annual Reports for 1974-1978 suggests that even this more modest view might be optimistic. Though descriptions of individual projects are admittedly brief, the intended beneficiaries are generally indicated, and the impression gained from their analysis is itself revealing. They indicate that the World Bank estimates of its small-farmer effort are high—if not actually exaggerated, that 'poor small farmers' appear to have comprised a comparatively small proportion (a little more than a quarter) of all 'small-farmer' funds, and that while total funds to agriculture have been steadily rising, the proportion allocated to small farmers has in fact decreased. Indeed, the image that begins to emerge from this 'small-farmer policy' is that promoting and extending the commercialization of viable farms has had precedence over concern for the poorer, more marginal producer.

A cautious reading of the Bank's own policy statements also shows that from the very beginning it had every intention of continuing its assistance to large-scale producers. It was certainly far easier to help those with 'some tangible assets'.¹⁵⁷ With emphasis placed on rapid commercialization, the provision of credit was a crucial element in the overall strategy, but

projects dealing with the production and processing of agricultural resources would in future comprise "an increasing share of IFC's investment activities" (p. 17). This expansion was not, however, sustained: IFC funding fell sharply from 1978, but the total value of agro-industrial investments that were IFC-assisted continued to rise (IFC, *Annual Reports*).

¹⁵⁶ IBRD, *Annual Report*, 1978, p. 18.

¹⁵⁷ M. U1 Haq, "Changing Emphasis of the Bank's Lending Policies", *Finance and Development*, Vol. 15, No. 2, 1978.

this was not even primarily intended for poorer producers. Credit would be given to the larger-scale farmers "when it (was) necessary to raise their production in order to increase domestic food supplies and/or contribute to exports".¹⁵⁸

This was an important caveat, and over half of the credit was earmarked for such producers.¹⁵⁹ It was explicitly stated that "increased attention to small farmers should not, however, obscure the need for additional significant increases in aid to other groups, especially medium-scale farmers".¹⁶⁰ And indeed it did not.

One study of some 18 small-farmer projects in Africa and Latin America financed and implemented with international aid found that two-thirds were focussed on 'progressive' farmers and that only one was specifically focussed on weaker groups.¹⁶¹ In Ghana the FAO-sponsored 'focus and concentrate' programme was geared to 'co-operators' whose farm size was in practice double the local average, while in Kenya the (British/IBRD/IDA-financed) Tea Development Authority restricted small-farmer participation on economic grounds.¹⁶² In Guatemala 'small farmers' were defined as producers with less than 45 hectares of land (encompassing 97% of all producers). Half of the funds were allocated to these 'small farmers', the remainder going to 'larger' farms in the top 3%.¹⁶³ Elsewhere, when new resources were fed into an unequal agrarian structure, they generally tended to favour the more pow-

¹⁵⁸ IBRD, *The Assault...*, *op. cit.*, 1975, p. 12.

¹⁵⁹ *Ibid.*, p. 118. See also ADB, *Rural Asia...*, *op. cit.*, 1978, and S. Dell, *The Inter-American Development Bank...*, *op. cit.*, 1974.

¹⁶⁰ IBRD, *The Assault...*, *op. cit.*, 1975, p. 118. Similarly the ADB argued (*Rural Asia...*, *op. cit.*, 1978, p. 219) that "although the large mass of the peasantry in these countries comprise small and marginal farmers, the bulk of production and most of the marketable surplus comes from medium-sized or large farms. It becomes expedient, therefore, to cater to the needs of the latter in order to augment production".

¹⁶¹ Elliot Morss, John Hatch, Donald Mickelwait and Charles Sweet, *Strategies for Small-Farmer Development*, Boulder, Colorado, 1976, Volume I, p. 17.

¹⁶² *Ibid.*, Vol. II; case studies.

¹⁶³ Institute for Food and Development Policy, *The Aid Debates: Assessing the Impact of US Foreign Assistance and the World Bank*, 1979, quoted in C. Payer, *The World Bank...*, *op. cit.*, 1979, p. 306.

erful groups regardless of the intention of policy-makers.¹⁶⁴

Once these farmers were incorporated into the emerging system they also became dependent upon it. There was often a high degree of government control in terms of the crops to be grown, the inputs to be used, the timing of various procedures and the marketing channels. There was little scope for individual decision-making or variations from the 'official' view of what should be done.¹⁶⁵ Indeed, in many cases the shift to modernized production was almost mandatory, and even carried through in the face of opposition.¹⁶⁶ Those who accepted the model and the opportunities became dependent for advice, inputs and often for marketing on government officials, or even on officials of the donor agency that was involved.

And the list could be extended. In general, however, it could be said that credit and other resources tended to go to the more wealthy stratum rather than to 'the poorest of the poor'. This aid was strengthening or creating a layer of 'progressive' farmers relying for their inputs and their prosperity on the bureaucracy and the government in power. It was this smaller group of the 'not-so-poor' smaller and medium-scale farmers who were in fact to provide the dynamics of the 5% growth rate that McNamara foresaw.

Finally, in analysing the policies of these institutions some attention must be paid to the countries that received the bulk of the financial aid and the underlying alliance of interests that this implied. What this reveals in essence is that, in addition to concern for increasing the output of the agricultural sector, there have been strong political considerations in the allocation of funds, reinforcing established capitalist regimes or serving an important stabilizing function in areas of possible rural unrest or 'insurgency'. For example, the involvement of

USAID in the drought-stricken countries of the Sahelian region and the transfer there of a French-speaking technical assistance team from Indo-China after the Vietnam war reflected a fear of mounting Russian and Cuban influence within that area. When people have land, inputs and the possibility of reasonable subsistence or a higher income, they also tend to be more conservative, and to see more risk in radical points of view. What is more, their dependence on modern delivery systems and marketing arrangements makes them far more open to government control. Given this thrust and the economic self-interest of capitalist countries in opening up markets, it was perhaps hardly surprising that there should have been no clear relationship between the level of development of individual countries and the size of the loans which they received. Table 1 shows the top ten recipient countries of World Bank and IDA loans for agricultural and rural development over the period 1974-1978, together with estimates of their per capita GNP at the beginning and at the end of this policy period.

These ten countries account for over 55% of

Table 1

MAIN RECIPIENTS OF WORLD BANK AND IDA LOANS FOR AGRICULTURAL DEVELOPMENT, 1974-1978

Country	Volume of loans (IDA and World Bank) in millions of US dollars	Per capita GNP ^a	
		1974	1978
India	1 644.0	130	180
Mexico	976.0	1 000	1 290
Indonesia	637.0	150	360
Philippines	586.5	310	510
Brazil	378.0	900	1 570
South Korea	350.0	390	1 160
Malaysia	382.5	660	1 090
Turkey	269.5	690	1 210
Nigeria	265.0	240	560
Romania	260.0	n.a.	1 750

Source: World Bank, *Annual Reports 1974-1978* and World Bank, *Atlas*, 1975 and 1979.

^aAt market prices.

¹⁶⁴See for example papers evaluating the DRI Programme, Departamento Nacional de Planificación, Bogotá; and USAID, *Spring Review...*, Vol. XIX, *op. cit.*, 1973.

¹⁶⁵See M. Nelson, *The Development...*, *op. cit.*, 1973, pp. 81-82; USAID, *Spring Review*, Vol. XIX, *op. cit.*, 1973, and E. Morss *et al.*, *Small Farmer...*, *op. cit.*, 1976.

¹⁶⁶See C. Payer, *The World Bank...*, *op. cit.*, 1979, pp. 296f.

the total loans to the agricultural sector, and it is quite evident that with the notable exception of India and Indonesia none were among the 43 lowest-income countries by World Bank criteria.¹⁶⁷ On the contrary, Mexico, Brazil, South Korea,¹⁶⁸ Malaysia and Turkey were fairly dynamic middle-income countries, while according to World Bank figures Romania was among the richest of all. Furthermore, these countries included not only some of the most stalwart capitalist economies, but also some of the most conservative and socially unresponsive political regimes.¹⁶⁹

It is true that the IDA component did not reflect this tendency, and that there was a distinction between World Bank and IDA funds, since the latter were intended for the poorest countries (with a per capita income of less than US\$ 520 at 1975 prices) which could not afford the near-commercial rates of the IBRD. However, the funds available through the IDA were comparatively small and they were concentrated. Between 1974 and 1978 some 42% of all IDA loans to the agricultural sector went to India alone (US\$ 1 408.6 million). Though India contained less than a quarter of the eligible population for IDA loans by World Bank criteria,¹⁷⁰ this was to some extent understandable, as it was indeed one of the poorest and most populous countries. Put another way, slightly over 60% of the world population were technically eligible for IDA loans, while the latter comprised little more than a third of all funding available from the IBRD.

In the case of the Inter-American Development Bank over half of its loans were from

the outset focussed on only four countries—Brazil, Mexico, Argentina and later Colombia—and although low-income countries fared better in the distribution of concessionary FSO loans (Fund for Special Operations, comparable to the IDA), even there very clear anomalies could be observed.¹⁷¹ In the case of the Asian Development Bank almost 60% of all loans went to South Korea, the Philippines, Indonesia and Pakistan in that order, while Bangladesh and Pakistan received the bulk of its Special Funds (44% over the period 1967-1979).¹⁷² The availability of 'suitable' projects no doubt had an influence on the annual allocation of funds, but the overall pattern that was to be observed in all these agencies reflected an underlying concern with political stability and economic expansion.

The aid policies of multilateral (and most bilateral) agencies reflected the economic and political self-interest of the advanced capitalist nations who were the major subscribers. They were built on current theories about 'the needs of development', but in practice they fitted a longer historical tradition in which small-farmer policies were introduced according to the needs of a broader economic and political strategy aimed at capitalist expansion.

Finally, the discussion of small-farmer policies cannot stop at an analysis of their objectives and the distribution of funds. It must also look at their implementation, and several points can be made in this regard to re-emphasize some of the underlying forces at work. Firstly, multilateral agencies work through a bureaucratic apparatus amongst whose senior staff the advanced capitalist countries are strongly represented. Stringent appraisal, procurement and disbursement procedures are used as a means of control, and they provide a bias towards capital-intensive projects with a large import component.¹⁷³

¹⁶⁷The lowest-income countries have been defined by the Bank as those with a per capita GNP of less than US\$ 200 p.a. World Bank, *Atlas for 1975*, p.8.

¹⁶⁸While the per capita income of South Korea was comparatively low in 1974, it increased rapidly to US\$ 700 in 1976 and US\$ 810 in 1977.

¹⁶⁹This is even more apparent in the case of World Bank loans, where the main recipients were (in order) Mexico, Philippines, Indonesia, Brazil, South Korea, Malaysia, Turkey, Nigeria, Romania and Thailand. These 10 countries accounted for 63% of all loans to the agricultural sector.

¹⁷⁰It comprised roughly two-thirds of the total population in the poorest (less than US\$ 200) income group. It is clear that priority was being given to this group, the only exception being Morocco, which had a per capita income in 1974 of US\$ 430.

¹⁷¹S. Dell, *The Inter-American Development Bank...*, *op. cit.*, 1972, pp. 126-129, for the period 1961-1970, and IDB, *Annual Report*, 1979, p. 36. Over the period 1961-1979 FSO funds went primarily to Brazil, Colombia, Mexico and Bolivia in that order. In the earlier part of the period (1961-1970) they went (again in order of total volume allocated) to Brazil, Mexico, Colombia, Chile and Argentina.

¹⁷²ADB, *Annual Report*, 1979, p. 23.

¹⁷³S. Dell, *Inter-American Development Bank...*, *op.*

Secondly, the nature of these projects is frequently such that they are dominated by engineering concerns or by a hefty administrative apparatus. Many projects have in practice suffered from both. Those which have a large irrigation component or those opening new land have been planned with a heavy emphasis on engineering criteria; the physical layout was normally decided first (often to a remarkable degree of detailed design, such as the location of homesteads and delimitation of plots) and social factors (the nature of the rural community) have proved at best to be of only secondary concern.¹⁷⁴

From the very beginning, the planning of a small-farmer project was likely to revolve around the use of norms, standardized procedures and a fixed image as to the most 'appropriate' farming unit, based on the idea of 'the independent, individualist peasant proprietor'. The unit in mind was generally one small enough to be worked with family labour. Ideally, the plots would be of equal size (in the belief that this would remove an important source of inequality), and wherever possible let under strict conditions forbidding sale for profit, mortgaging of land or its fragmentation.¹⁷⁵ All of this was likely in practice to be totally different from the life and expectations of peasants in existing production areas.

Once the project was established, it was usually characterized by a strong degree of administrative control and a paternalistic attitude towards the producer. In Morocco it has been noted that the staff of small-farmer projects tended 'to be highly authoritarian and empha-

size control';¹⁷⁶ much the same is true of the *Autorité des Ménagements des Vallées des Volta* (AVV) in Upper Volta, the Mahaweli Ganga scheme in Sri Lanka, and many more.¹⁷⁷ In the majority of cases the need for technical advice (given the parameters laid down by project officials) was a real one but the officials' role in farm management decisions was often such that the farmer was left with little say in the way that the farm was run. Finally, it must be added that many of the prominent officials were foreign nationals;¹⁷⁸ indeed, both in the engineering emphasis and the administration of individual small-farmer projects, foreign 'expert' advice was often necessary, or was laid down as a condition of external aid.

The lack of concern with the nature of the rural community that was being created tended to promote individualism and to foster a greater degree of differentiation. The organization of farmers was strictly supervised, and beyond the needs of production and marketing it was in many instances actively discouraged. In Bolivia (in Alti Beni II),¹⁷⁹ "traditional campesino unions were banned, while the cooperatives imposed were specifically prohibited from taking any political overtones".

In Colombia organizations formed under the Integrated Rural Development Programme (DRI) were confined to marketing,¹⁸⁰ and in many other areas the power of 'progressive' farmers was such as to limit the effective viability of farmers' organizations and peasant unions.

In short, small-farmer policies have tended to be heavily oriented towards increased output and commercialization, with more concern

cit., 1972, p. 42, and R.P. Dewitt, *The Inter-American Development Bank...*, *op. cit.*, 1980.

¹⁷⁴In this respect see David Dunham, "Settlement Schemes and Family Farms as Policy Options: The Case of the Mahaweli Ganga Development Programme", ISS, The Hague, 1979; M. Nelson, *The Development...*, *op. cit.*, 1973; Mahaweli Development Board, *Proposals for Human Settlement*, Colombo, April 1978, and Marshall Wolfe, "Rural Settlement Patterns of Social Change in Latin America: Notes for a Strategy of Rural Development", *Latin American Research Review*, Vol. 1, No. 2, 1966.

¹⁷⁵On the general insensitivity to existing rural institutions see Uma Lele, *The Design of Rural Development*, IBRD, Baltimore, 1975, p. 176. This runs throughout the thinking on integrated rural development.

¹⁷⁶Cynthia Gillette, "The Credit Connection: Cultural and Social Factors Affecting Small-Farmer Participation in Credit Programmes", USAID, *Spring Review*, 1973, p. 167.

¹⁷⁷See European Economic Community, *Programme Global d'Etudes d'Investissement de l'AVV*, Brussels, 1978, and *Rapport sur la Campagne Agricole*, Ouagadougou, 1978. See also Chambers, *Settlement Schemes...*, *op. cit.*, 1969, pp. 83f. On the Mahaweli see Henk van Roosmalen, *Social Aspects of Settlement in the Mahaweli*, The Hague, 1979.

¹⁷⁸See E. Morss *et al.*, *Strategies...*, *op. cit.*, 1976, *passim*.

¹⁷⁹M. Nelson, *The Development...*, *op. cit.*, 1973, p. 93.

¹⁸⁰DNP/DRI, *Evaluación del impacto socioeconómico: subprograma comercialización de DRI áreas 4*, Bogotá, August 1980.

for efficiency in agricultural production than for the way it affects the lives and communities of small producers. The policies themselves have tended to be such that they have served to create a stratum of wealthier, more successful farmers and more inequalities, or else they have strengthened already powerful groups in the local community.¹⁸¹ There is no doubt that a great many small farmers have benefitted (often substantially) as a result of these programmes; many projects have seen a notable increase in productivity, and in others the area cropped has expanded considerably, often with a rise in producer prices and in the average income of people in the area of the project concerned.¹⁸² This is not in dispute. The point

¹⁸¹See materials on the impact of the Colombian DRI Programme and the case of the FLDA Land Development Schemes in West Malaysia (for example, Noel Benjamin, "The Role of Land Settlement in the Economic Development of West Malaysia 1957-1970", *Development and Change*, Vol. 9, No. 4, 1978, pp. 581-598.

¹⁸²See for example DNP/DRI, *La silenciosa transformación del campesino minifundista en Antioquia*, Bogotá, June 1980; DNP/DRI *Evaluación del Impacto...*, *op. cit.*; and Sector Público Agrícola y Secretaría del Consejo Nacional de Planificación Económica, *Análisis del impacto del crédito de fincas pequeñas sobre ingreso, empleo y producción agropecuarios*, Guatemala, June 1976.

is that along with it has tended to come increasing differentiation and inequality.

The policies of international development agencies have tended to be such that governments have had to tailor their own development plans to these ideas in order to obtain loans, and such have been the accumulated debts of many of these nations that external capital has been crucial to their survival. The small-farmer thrust implied commercialization of the peasant sector, dependent on the capitalist economy for modern inputs and subject to a high degree of administrative control. It has been slowly drawn into the ambit of government planning; in the process it has become a manipulable element in economic strategy, less susceptible to the influence of radical groups and rural unrest.

In this sense small-farmer policies have been part of the response of capitalist nations to the perceived needs and threats of the 1970s. They fitted a historically established pattern of adjustments and coercions designed to make use of the small-farm sector for wider needs. Small-farmer policies in this direction were not as much a solution to the poverty problem as a set of measures reproducing and reinforcing situations in which marginalization continued or was in fact made worse.

Algunas Publicaciones de la CEPAL

CEPAL, *Economía campesina y agricultura empresarial: Tipología de productores del agro mexicano, Siglo Veintiuno Editores, Mexico City, 1982.*

Until well into the 1960s, concern for the structural problems of Mexican agriculture were in general confined to the problem of the desirable relationship between the ejidal and private components. This relatively limited interest in delving into the structural problems of agriculture should come as no surprise considering that for a quarter of a century following the end of Cardenism, the behaviour of Mexican agriculture constituted one of the most outstanding examples of the classical paradigm on relations between agriculture and development or, more specifically, between agriculture and growth of the urban-industrial complex.

During that period the agricultural product grew at an annual average rate higher than 4.5%, with a cumulative increment of the product per person employed of about 2.8%. The domestic demand for food and inputs could be fully met at prices which were stable and even declining (1950-1963) by comparison with industrial prices. Agricultural imports never exceeded 5% of the total local supply of these products, and usually amounted to 1% and 2% of the local supply. The city-countryside price ratio, which had grown by some 33% in the decade 1940-1950, dropped by some 23% in the following period. Foreign currency of agricultural origin was generated at an increasing rate (close to 6.5% as an annual average) until eventually it represented over half the total from exports of goods. The rural sector increasingly supplied the labour required for industrial urban growth, and the wages received by that labour increased appreciably more slowly than did productivity in the industrial sector. The rural population fell from nearly 65% to 45% of the total population in the period referred to, and per capita productivity in industry grew (at 1960 prices) by over 119%, while the minimum urban wage increased by only 31%. Surpluses were produced which could be transferred to the industrial accumulation through the fiscal, banking and price systems, and in some years the surpluses equalled 15% of the agricultural product. Finally, the development of a modern agricultural sector and, to a lesser extent, the decline in peasant self-reliance contributed to the more or less rapid growth of a domestic market for manufactured inputs and finished goods.

However, in 1966 a downward trend began in the amount of land sown which could be offset only by an improvement in crop yields and composition. Because of this, the agricultural product grew by barely 0.8% a year in the period 1966-1977; all the elements of the paradigm began to revert. Self-sufficiency in food came to an end and imports of maize and beans reached unprecedented proportions; the net agricultural balance, which in 1965 financed a quarter of all imports, became a marginal, and in some years even a negative, source of income. Agricultural

prices grew at a rate higher than those of the economy as a whole, especially in the period 1970-1977. The flow of labour remained significant, but, far from bolstering development, it became a hindrance in that conditions were not such that the flow could be productively absorbed in other sectors, and the emigration of labour to urban areas resulted in increasingly high social costs.

In these conditions, the optimistic slant of the studies of the early 1960s, which was due to the high degree of elasticity of the agricultural supply, has been replaced by a search for the origins of the recession and stagnation in the sector. In addition, there is a growing consensus that industrial development, no matter how rapid it might be, may not be able to give the poor people of the countryside an opportunity to escape from their poverty within a reasonably foreseeable future. Awareness of this fact has led to the formulation of, among other proposed solutions, the ambitious project known as the Mexican Food System, which insofar as agriculture is concerned, represents a specific attempt to make this vast social segment self-sufficient in food.

The need to dig deep in analysing the agricultural crisis and to design strategies or policies which would make it possible to tackle the problems of rural poverty which have been aggravated by the recession brings the analysis of the structural problems to the fore and makes it the focal point of sectoral considerations once again, superseding the attempts to 'explain' the loss of dynamism of the supply in terms of simple relations of cause and effect, ascribing it to investment, prices, the domestic demand, the international demand or to any combination of these variables, such an approach having proved to be unsatisfactory.

The main intention of this study is, precisely, to contribute to the analysis of the Mexican agrarian structure by integrating both the theory underlying its reformulation and the practical results of that reformulation, which draws upon the concepts introduced in a vast body of literature which has been produced on this topic since the mid-1960s. In addition to the objective described above, there is that of showing that the proposed reformulation constitutes a useful tool in designing a rural development strategy which would take into account the varied range of producers which such a strategy will necessarily involve.

The study has been divided into three parts: the first part is devoted to the theoretical development of the concepts which will be used to construct the typology; the second part presents the quantitative results of the typological analysis; and the third part gives an example of the way in which this typology may be used in designing a rural development strategy.

Estilos de desarrollo de la industria manufacturera y medio ambiente en América Latina, Estudios e Informes de la CEPAL Series N.º 11, Santiago, Chile, 1982, 180 pages.

This study was prepared for the project on "Styles of development and environment", implemented in CEPAL in November 1979. It does not claim to be a polished piece of research on a topic as complex and vast as its title indicates, but is concerned only to point out some of the fundamental aspects of the transnational style of development which prevails in the Latin American manufacturing industry.

In its consideration is given to some of the things which define this style, such as the repercussion had by the transnationals, the dominant technology, the industrial structures and the way in which they change, the quality of life, the location of industries, natural resources, consumption of energy, the physical environment, etc. In respect of many of these subjects, the author is supported both by research carried out previously and studies conducted as part of the project referred to.

The impact of industrialization on water resources is subjected to thorough analysis since it is used as the basis for a clear demonstration of an important working hypothesis; i.e., the present style of development is steadily eroding the physical and human environment, in both qualitative and quantitative terms.

The study is divided into two parts. In the first part, concepts relating to styles of development and their effects on industry in a wet environment are presented; in the second part an analysis is made of the style which prevailed in the 1950s and then of upward development style and the present or transnational style. All this is presented within the context of what has been the dynamic of the region ever since industrialization began.

Relaciones económicas de América Latina con los países miembros del Consejo de Asistencia Mutua Económica (CAME), Estudios e Informes de la CEPAL Series N.º 12, Santiago, Chile, 1982, 154 pages.

This is a comprehensive report on the studies carried out under the joint CEPAL/UNCTAD/UNDP project on economic relations between Latin America and the member countries of the Council for Mutual Economic Assistance (CMEA).

In the first part of the report consideration is given to the general characteristics of the trade between the countries of Latin America and the CMEA countries and the obstacles to it; there follows a description of the institutional system and the contractual framework in which economic relations between the two areas are carried out, and finally, consideration is given to the special case of Cuba, a Latin American country within CMEA. Thus, a comprehensive approach is taken to the presentation of the main accomplishments and problems with regard to the trade relations between the Latin American and CMEA countries, as revealed in the abundant data contained in the 17 reports and documents prepared under the CEPAL/UNCTAD/UNDP project. The data has been grouped under headings, most of which refer to concrete country situations.

Campesinado y desarrollo agrícola en Bolivia, Estudios e Informes de la CEPAL Series N.º 13, Santiago, Chile, 1982, 175 pages.

Prepared by the CEPAL/FAO Joint Agriculture Division, this document consists in a study of an agricultural sector in which nearly two thirds of the population of the country live and work and where, in spite of the progress which has resulted from a process of transformation, new mechanisms obstruct opportunities for peasant development. In the

study, consideration is given to the agriculture of an economy with little industrial development and a strong mining tradition.

The analysis covers the years between 1950 and 1977, which marked the transition from an agricultural sector which was primarily hacienda-oriented to an economy based essentially on mineral exports, in which a peasant agriculture is taking shape. This is happening as part of a revolutionary process which is changing the power structure, nationalizing the basic wealth and finally creating a new social framework in Bolivia. It is therefore useful to give consideration to how this restructuring of social relations alters or changes the nature and scope of intersectoral relations and the economic performance of the sector.

In its various chapters, the study examines data relating to the development of Bolivia during recent decades, agrarian transformation and structural heterogeneity, the Bolivian agrarian economy, market participation of peasant farmers and their income and expenditure, markets and agricultural prices, the share of the crop-raising sector in final income and expenditure and, finally agricultural credit.

CEPALINDEX (summaries of CEPAL/ILPES documents) Vol. 4, No. 2, December 1981.

In this publication the Latin American Centre for Economic and Social Documentation (CLADES) continues its analysis and processing of the documentation prepared by CEPAL and ILPES. Its objective is to disseminate the thinking of the Economic Commission for Latin America by issuing a publication which contributes to the transfer and exchange of socioeconomic information in the region and provides for a data base which is easy to obtain and consult.

The material analysed in this volume relates to meeting documents, working drafts (only in cases where final publication has not yet occurred) reports and studies, annual reports, books, texts and articles, most of which were published by CEPAL and ILPES during 1981.

Política económica, organización social y desarrollo regional, by Sergio Boisier, Cuadernos del Instituto Latinoamericano de Planificación Económica y Social (ILPES) Series No. 29, Santiago, Chile, 1982, 149 pages.

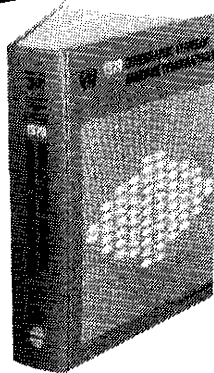
In this little book, the author summarizes his own personal experience and the collective experience of a profession which, at least in Latin America, seems to be in the midst of a severe crisis in which the accumulated knowledge is being put to the test while, at the same time, as in any unsatisfactory situation, the ground is fertile for the generation of new ideas and for great qualitative and quantitative progress in understanding the subject-matter covered by the profession.

Chapter I first and foremost presents the frame of reference in terms of the economic system, the prevailing styles of development and the dominant paradigm of regional planning. These elements are considered to be the parameters, which determine, more or less rigidly, the con-

text within which the suggested interpretation of the regional development process is viewed. Secondly, there is an exposition of the way in which regional development is interpreted in terms of the economic, institutional and social factors responsible for the existence or lack of regional development. Chapter II contains an extensive discussion of the logic behind the process of allocating resources among regions. Chapter III is dedicated to an examination of the regional impact of the economic policy; in addition,

an annex to this chapter contains a case study on fiscal policy and regional development in Chile, which provides a practical illustration of the argument advanced in the chapter itself. Chapter IV refers to the regions' capacity for social organization, and this capacity is examined from the point of view of an increase in the regional capacity for decision-making, the possibility for internalizing growth itself at a regional level and of participation by the population. The last chapter consists in a summary.

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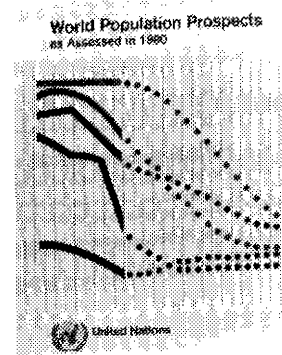
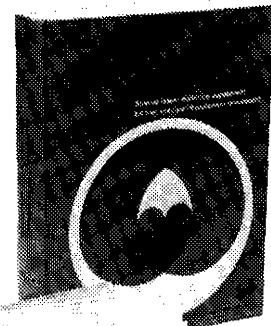
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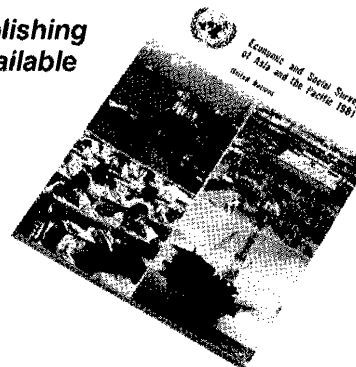


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