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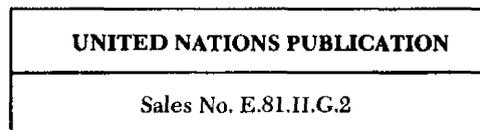
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# CEPAL

## Review

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*Note:* The Spanish edition of CEPAL Review No. 13 contained, in addition to the above articles, an article by Mr. Sidney Dell. This was of a preliminary character, however, and it is planned to publish an abridged new version of it in English in the near future.

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

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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.

## Some aspects of the international distribution of industrial activity

*Alfredo Eric Calcagno  
and Jean-Michel  
Jakobowicz\**

This article examines some of the recent changes in the industrial structure at the international level. First, it attempts to determine the actual extent of relocation in order to establish whether this is an almost unfulfilled possibility or rather a process in full implementation. It goes on to describe various kinds of industrialization in developing countries and then raises the problem of the 'industrial redeployment' of the developed countries, considering the contradiction that exists between the current problem of unemployment and the probable labour shortage which could occur between 1985 and the year 2000, one solution to which could be industrial relocation (others would be an increase in productivity or an influx of foreign workers). The authors also consider the comparative advantages which may induce transnational corporations to establish themselves in developing countries, and they analyse in greater detail the question of wage differences as weighted by productivity. Finally, policy alternatives are proposed for developing countries, comparing the characteristics and effects of 'open' industrialization based on comparative advantages—which would fit in with the industrial 'redeployment' of the developed countries—with the characteristics and effects of a form of industrialization which tends to affirm national autonomy (as for example in the production of capital goods) and to supply the majority of the population.

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The authors wish to thank Aníbal Pinto, Arturo Núñez del Prado, Luiz Claudio Marinho and Armando Di Filippo for their valuable comments.

## I

### The real extent of the new international distribution of industrial activity

The concept of the international redistribution of industrial activity is not new, and during the past 20 years it has provoked many theoretical discussions; but it has never arisen in industrialized countries in such precise and concrete terms as since the beginning of the 1974-1975 crisis. In the past, the analysis has usually set forth a dichotomy between protectionism and international specialization; however, from a practical point of view, the situation is much more complex. It is not common for a country, no matter how powerful, to be willing to give up an industrial activity for the benefit of other countries and thus become more dependent on the outside for its supplies. On the other hand, permanent maintenance of tariff barriers to protect an internationally non-competitive industry is not a solution either. The difference between the interests of the transnational corporations and those of national States complicates the question even further.<sup>1</sup>

Before tackling the problem of the distribution of industrial activity, we should determine, beyond theoretical discussions, if there really is a relocation of industrial production at the international level, and if so to what extent. We must first keep in mind the interaction between production and trade. For example, the main process of industrial relocation, which took the form of import substitution in many developing countries—in particular, in Latin America—meant a drastic change in the composition of their international trade; even if they increased in total value, the new imports fitted in with the desired process of internal development. In addition, with few excep-

<sup>1</sup>For example, in the case of Volkswagen, which builds automobiles in Brazil, some of which it later exports in the form of separate parts to Germany, it is the German automobile industry which would be hurt in the medium term. It seems hard to imagine a government raising tariff barriers against the imports of one of its own firms. At the same time, however, given the labour restrictions that this country might have in the future, a relocation of this type would be logical.

tions, only a part—and not the major part—of industrial production is exported (44% in developed countries and 23% in developing countries). What is now called industrial 'redeployment' or 'relocation' refers to the importation from developing countries, on the part of some industrial countries, of certain manufactures which were previously made locally, and to what this means for the production and foreign trade of the developing countries concerned.

At first sight, it seems evident that a growing percentage of the textiles, clothing, electrical appliances, etc., consumed in the developed countries is coming from the 'newly industrializing countries' (NICs);<sup>2</sup> but in reality, at the international level, only a very small part of industrial production has moved from the North to the South (see table 1). During the past 15 years, only 3.3% of industrial production moved from the developed to the developing countries:<sup>3</sup> 2.5% to the newly industrializing countries and 0.8% to the other developing countries. At this rate of transfer, the ob-

jectives of the Lima Conference would be reached around the year 2050.<sup>4</sup>

Of more particular concern now is the problem of the industrial production of developing countries intended for export to developed countries, the latter, for various reasons, having apparently decided not to be totally self-sufficient in these sectors. In this regard, there is a general impression that the developing countries have greatly increased their participation in the international trade in manufactures over the past few years. But this is not true. As may be seen from table 2, the developed countries have not only remained in their dominant position, they have even consolidated it. Thus, in 1976, 83.5% of world exports of manufactured products came from these countries, as compared with 82.6% in 1963. Although the newly industrializing countries have been able to increase their participation in the world market by 3.45%, this was achieved at the expense of a corresponding decrease in the shares of the other developing countries and the countries of the East.<sup>5</sup>

Table 1

STRUCTURE OF WORLD PRODUCTION AND EXPORTS OF MANUFACTURES  
(World total = 100)

	Production <sup>a</sup>			Exports		
	1963	1973	1976	1963	1973	1976
Developed countries <sup>b</sup>	88.1	86.0	84.8	82.4	83.3	83.8
Developing countries	11.9	14.0	15.2	4.3	6.6	6.6
Far Eastern NICs <sup>c</sup>	0.4	0.9	1.5	1.4	3.3	4.1
Far Eastern NICs plus Latin America <sup>d</sup>	3.0	4.3	5.4	1.6	4.3	5.0
Socialist countries	-	-	-	13.3	10.0	9.6

Source: GATT and OECD.

<sup>a</sup>Excluding the socialist countries.

<sup>b</sup>Comprises the OECD countries, Spain, Portugal and Greece.

<sup>c</sup>Hong Kong, South Korea, Taiwan and Singapore.

<sup>d</sup>Countries included in <sup>c</sup> plus Brazil and Mexico.

<sup>2</sup>According to OECD, there are ten of these countries: Spain, Portugal, Greece, Yugoslavia, Brazil, Mexico, Hong Kong, South Korea, Taiwan and Singapore. The European Community includes Turkey on this list. See OECD, *L'incidence des nouveaux pays industriels*, Paris, 1979; and Commission of the European Communities, *Evolution des structures sectorielles des économies européennes depuis la crise du pétrole, 1973-1978*.

<sup>3</sup>United Nations Industrial Development Organization, *World Industry since 1960: Progress and Prospects*, New York, 1979.

<sup>4</sup>The UNIDO Conference held in March 1975 in Lima fixed the objective that at least 25% of the production of manufactured goods should be carried out in developing countries by the year 2000. This percentage was 6.9% in 1960 and 8.6% in 1976.

<sup>5</sup>Of the newly industrializing countries, those of southeast Asia had the most intense growth in their foreign trade: if we contrast this fact with the world production structure described above, we may conclude that the increase in the production of these newly industrializing countries of the Far East was largely absorbed by their foreign trade, while in Brazil and Mexico this extra production was directed towards their internal market.

Table 2  
IMPORTS OF MANUFACTURES BY THE  
INDUSTRIALIZED COUNTRIES, CLASSIFIED  
BY REGION OF ORIGIN  
(Total imports of manufactures = 100)

Origin	Imports of manufactures by the developed countries		
	1963	1973	1978
Developed countries <sup>a</sup>	94.4	91.1	89.5
Developing countries	3.8	6.8	8.2
Far Eastern NICs <sup>b</sup>	1.2	3.8	4.8
Far Eastern NICs plus Latin America <sup>c</sup>	1.5	4.7	5.8
Socialist countries	1.8	2.1	2.3

Source: GATT and OECD.

<sup>a</sup>OECD countries plus Spain, Portugal and Greece.

<sup>b</sup>Hong Kong, South Korea, Taiwan and Singapore.

<sup>c</sup>Countries included in <sup>b</sup> plus Brazil and Mexico.

As shown in table 2, almost all imports of manufactured products by the developed countries, in both 1963 and 1978, came from other developed countries; only 5.8% came from the newly industrializing countries and 4.0% from the rest of the developing countries and the Eastern bloc. Moreover, one of the patterns of sub-development continues to appear: although the newly industrializing countries markedly increased their exports of manufactures to the developed countries, the latter export more to the newly industrializing countries than they import from there. In 1977 the balance was 18.2 billion dollars in favour of the OECD countries; Japan had a positive balance of 10.6 billion dollars, and only the United States showed a deficit (2.6 billion).

The only areas in which the newly industrializing countries have been successful in their search for a market in the developed countries are clothing and footwear, textiles and electrical appliances. This group of products, however, represents only 4.5% of the total imports of OECD countries and barely 2% of their total consumption of manufactured goods<sup>6</sup> (see table 3).

<sup>6</sup>Speech given at the meeting of the United Nations Conference on Trade and Development by Robert S.

The context of capital and skilled labour in products is a determining factor in these exchanges. Thus, 56% of the goods imported from the newly industrializing countries by the advanced industrialized countries have a very small content of skilled labour, and 68% have a very small, and sometimes negligible content of capital, whereas half of the goods exchanged among industrialized countries have a very high capital content (see table A of the appendix).

In turn, studies of the consumption behaviour of families in developed countries (see table 4), reflect relative saturation with respect to certain basic necessities. The demand for clothing and footwear, food products, furniture, and more recently household appliances, has grown much less rapidly than total consumption, the most active sectors of which have been health, leisure activities, housing and transport.<sup>7</sup> If these products (except household appliances) are considered from the point of view of their manufacture, they are seen to be industrial products which require little capital (in the case of clothing and footwear, 63.5% less than the average for manufacturing industries) and unskilled labour, and in which there have been practically no innovations of any importance in recent years.

To sum up, then, the vast majority of industries transferred<sup>8</sup> to developing countries have low capital and research content, use technology 'behind' that of the developed countries, and have a high content of unskilled labour. These industries have either a stagnant or sluggishly growing market in the developed

McNamara, President of the World Bank, Manila, 10 may 1979.

<sup>7</sup>See France, Commissariat Général du Plan, *La spécialisation internationale des industries à l'horizon 1985*, Paris, 1978.

<sup>8</sup>The term 'transfer' may give rise to some misunderstanding. The headquarters of a corporation does not necessarily open a branch in a developing country — as often occurred in the process of import substitution — or transfer the whole firm, but rather the government of the developed country adopts internal political measures, such as termination of subsidies or lowering of tariffs, with the result that resort is had to imports rather than domestic production or that a transnational corporation reorganizes its production chain by subcontracting labour-intensive stages to developing countries.

Table 3  
PERCENTAGE OF OECD IMPORTS COMING FROM NICs, BY PRODUCTS,  
1963 AND 1977

SITC division	Percentage from NICs <sup>a</sup> 1963	Share of each division in total OECD imports Total imports = 100 1963	Percentage from NICs <sup>a</sup> 1977	Share of each division in total OECD imports Total imports = 100 1977
Clothing (84)	15.3	3.3	31.2	4.9
Leather and footwear (61, 83, 85)	3.8	2.2	21.6	2.4
Electrical machinery (72)	0.5	8.3	10.6	10.3
Textiles (65)	2.8	8.9	6.5	5.3
Other <sup>b</sup>	0.4	66.9	1.6	65.0
<i>Total</i>	<i>1.3</i>	<i>89.6</i>	<i>5.1</i>	<i>87.9</i>

Source: OECD, *L'incidence...*, *op. cit.*, p. 27.

<sup>a</sup>NICs: Brazil, Mexico, Taiwan, Hong Kong, Singapore and South Korea.

<sup>b</sup>SITC divisions 62, 69, 66, 67, 73, 71, 5, 64.

Table 4  
EUROPE: CHANGES IN PRIVATE CONSUMPTION, BY  
FUNCTION, AT 1970 PRICES  
(1970 = 100)

	1953	1960	1973	1977
Food	58.0	74.2	107.7	108.4
Clothing	47.0	64.2	111.1	112.9
Housing and heating	46.0	61.8	115.3	136.6
Furniture	41.2	61.4	122.0	126.2
Health	31.0	48.6	127.0	181.3
Transport	27.5	46.6	121.4	141.0
Entertainment	46.0	63.0	120.8	146.1
Other services	43.6	61.2	116.5	150.4
<i>Total</i>	<i>46.8</i>	<i>63.9</i>	<i>115.0</i>	<i>128.0</i>

Source: *National accounts of the OECD countries, 1960-1977*, Vol. II, Paris, 1979.

countries, with prices increasing less than those of other products. This article deals with this type of 'redeployment', which constitutes only a minor part of the changes occurring in industrial location in the world, the most important part, as already noted, being made up of the new industries intended to supply internal

markets. The article will go on to discuss how this fits in with the industrial development considered desirable for the developing countries and the reasons which could motivate the developed countries to import these products from the developing countries in the future.

## II

## Types of industrialization in developing countries

Faced with this panorama of concentration in the central countries, the peripheral countries in general, and the Latin American countries in particular, must tackle the problems of how to develop their economies, especially their industry. In this respect, such questions arise as: What type of industrial structure should Latin American countries seek? What should be the interrelationship between the domestic market and exportation? How much leeway is allowed by the developed countries' policies, and how could most advantage be taken of the margin for manoeuvring which exists?

(a) *Different types of industrialization*

To answer the first question we must first of all characterize the different types of industrialization which the developing countries could adopt.

Historically, Adam Smith considered industry as a complex of manufacturing and productive activities, giving it an institutional meaning extending beyond the connotation of ability, perseverance and diligence which it has when used in respect of persons.<sup>9</sup> In other words, "industry means the relationship between man and nature, through work effected by means of a machine".<sup>10</sup> In fact, he is describing the British industrialization system, because in it there was a simultaneous reorganization of agriculture and increase in agricultural productivity which enabled agricultural labour to emigrate to the cities; a first phase of consumer goods industries, especially textiles; and a subsequent iron and steel phase accompanied by an intense supply of capital on the domestic and international markets.<sup>11</sup> In the Soviet system, for its part, a rapid process of industrialization coincided with the collec-

tivization for agriculture and was essentially oriented towards capital goods.<sup>12</sup>

Later, many different processes of industrialization developed which adopted to a greater or lesser extent the elements of these two models. Table 5 summarizes various types of industrialization, showing the degree to which they are autonomous or dependent, popular or elitist. It is a basic outline which only proposes to show the great variety of possible processes of industrialization. The categories of analysis refer to the type of goods produced (capital, intermediate or consumer); for whom (internal market or export; high or low income groups); how (simple or complex technology, integrated into the national economy or transnational corporations, high or low value retained in the producing country); and by whom (high or low wages, with or without union rights, State enterprises or national or foreign private industries).

From this typology, basic differences can be seen among the various types of industrialization. A glance at the extreme cases shows that there is very little in common, on the one hand, between an autonomous form of industrialization, which manufactures capital goods for the internal market, is integrated into the national economy, retains a high value in the developing country, pays high salaries and is carried out by domestic or State firms, and, on the other hand, a form of industrialization which manufactures consumer goods for export, uses complex technology, is integrated into a transnational corporation, retains little value in the underdeveloped country, pays low wages and is carried out by a transnational corporation.

In considering 'types of industrialization' it should be kept in mind that in countries with a mixed economy, like those in Latin America, various combinations of 'types of industrial-

<sup>9</sup>See Ruggiero Romano, *Industria: storia e problemi*, Turin, Giulio Einaudi, Editore, 1976.

<sup>10</sup>*Ibid.*, p. 3.

<sup>11</sup>*Ibid.*, p. 31.

<sup>12</sup>See Maurice Dobb, *Studies in the Development of Capitalism*, London, 1946.

Table 5  
BASIC CHARACTERISTICS OF VARIOUS  
TYPES OF INDUSTRIALIZATION\*

	Autonomous	Dependent	Popular	Elitist
<i>Type of goods</i>				
Capital	XXX	X	XXX	XX
Intermediate	XXX	XX	XXX	XX
Consumer	XX	XXX	XXX	XXX
<i>Production destination</i>				
Domestic market	XXX	XX	XXX	XX
Export	XX	XXX	XX	XXX
<i>Destination by social groups</i>				
High income	XX	XXX	X	XXX
Low income	XXX	XX	XXX	X
<i>Technology</i>				
Simple	XXX	X	XXX	X
Complex	XX	XXX	X	XXX
<i>Degree of integration</i>				
Integration into national economy	XXX	X	XXX	XX
Integrated with transnational corporations	X	XXX	XX	XXX
<i>Value retained in producing country</i>				
High	XXX	X	XXX	XX
Low	X	XXX	X	XX
<i>Labour</i>				
High wages and union rights	XXX	X	XXX	X
Low wages without union rights	X	XXX	X	XXX
<i>Type of enterprise</i>				
State	XXX	X	XXX	X
National private	XX	XX	XX	XXX
Foreign	X	XXX	X	XXX

\*Weightings (X, XX and XXX) signify zero or little, medium or high importance.

ization' coexist in different branches and firms. What is important is what prevails in the economic situation as a whole. Thus, our preference for an autonomous and popular industrialization is obvious, for reasons of political philosophy which go beyond the microeconomic perspective (which also has no reason to disfavour this option).

(b) *The internal market and exportation*

The controversy contrasting import substitution industrialization with the export of

manufactures appeared to have been settled 20 years ago; however, since it has arisen again, it seems advisable to recall the basic arguments in favour of the preponderance of the domestic market and the complementary and supportive role of exports manufactures. In a recent analysis<sup>13</sup> it was shown that "the historico-structural form of Latin America, at present and in the foreseeable future, means that its development

<sup>13</sup>See Aníbal Pinto, *Centro-periferia e industrialización* (mimeographed), Santiago, Chile, december 1980.

depends *primarily* on the use of its human and material resources in activities oriented towards the internal market. The present coefficients of openness and the future prospects bear clear witness to show this reality". The same study indicates the important supportive role of manufactured exports in acquiring foreign currency and in complementing the internal demand with the exterior, thus, in certain cases permitting suitable levels of productivity and costs to be reached. In sum, this is not an exclusive alternative but rather a

complementary one in which the main function is production for the domestic market.

### (c) *External insertion*

The third question asked at the beginning of this section referred to the leeway left by the industrial policy of the developed countries and the opportunities for developing countries to take advantage of it. This subject is related to 'industrial redeployment' and will be discussed in the following section.

## III

### The 'industrial redeployment' of the developed countries

This chapter considers the situation of the developed countries and the motives they may have to adopt a policy of 'industrial redeployment'. The first question considered is the labour force, and the short-term problem of unemployment is clearly distinguished from the medium- and long-term problems related to the decrease in the active population due to the decline in the birth rate. The second aspect is that of the possible comparative advantages of the developing countries, especially the wage differential, endowment of natural resources, saving of energy, absence of anti-pollution expenses and fiscal advantages.

#### 1. *Unemployment, the active population and industrial 'redemption'*

One of the most important problems facing the industrialized countries since 1975 has to do with the direct and indirect effects of a relative decrease in the population in general (see table 6) and of the active population in particular. This phenomenon manifests itself already at the demand level (closing of primary schools for lack of pupils, for example), but it appears completely unrealistic if it is looked at from the point of view of the supply of labour, since it is well known that in 1980 there were more than 6 930 000 persons seeking employment in the European Community and more than 6 000 000 in the United States. However, the statement

that the economic growth of the industrialized countries could be slowed down by a lack of labour is based on two facts: on the one hand, the decrease in the active population during the second half of the 1980s, and on the other, the decrease in productivity of the labour force.

It is thus necessary to draw a clear distinction between the short-term effects of relocation on employment and its possible rela-

Table 6

DISTRIBUTION OF WORLD POPULATION,  
1950, 1975 AND 2000  
(Percentage of total)

	1950	1975	2000
Western Europe	12.4	9.7	7.2
Eastern European countries	11.3	9.5	7.4
United States	6.0	5.3	4.2
Japan	3.3	2.8	2.1
<i>Developed countries</i>	34.0	28.2	21.8
Latin America	6.5	8.0	9.8
Africa	8.7	10.0	13.3
Asia	50.7	53.6	55.0
India	16.4	15.4	16.7
China	22.2	22.2	19.2
<i>Developing countries</i>	66.0	71.8	78.2
<i>Total</i>	100.0	100.0	100.0

Source: United Nations, *World Population Trends and Policies, 1977, Monitoring Report*, New York, 1979.

tionship with the decrease in the active population in the long term.

(a) *The short term: employment*

In the short term, the main argument used by the developed countries against industrial redeployment is the decrease in jobs it would cause. In the face of this situation, the reaction of governments has been a defensive one and has taken the form of subsidies or protectionism, usually at the request of trade unions and regional pressure groups. However, many studies show that although there may be unemployment at the level of the companies affected, the effects on global, regional or sectoral employment are minimal; furthermore, in the medium term the developed countries may acquire additional markets in the countries which are industrializing, since the reciprocal exchanges and exports thus generated will create jobs.

In France, employment losses due to imports from developing countries affected 73 400 persons in 1970 and 93 200 in 1976, that is, on the average less than 0.4% of the active population.<sup>14</sup> Between 1976 and 1985 these imports could cause 153 000 to 343 000 persons (between 2.8% and 6.3% of the labour force employed in industry) to lose their jobs, depending on whether there is 'limited protection' of the French economy or 'increased competition'. These figures, however, only show one aspect of the process, for if the employment which is linked to exports to developing countries is taken into account, the tally is either markedly positive or at least relatively well balanced for the future, depending on the scenarios adopted. This balance between losses and gains in employment due to exports from newly industrializing countries has been studied a great deal.<sup>15</sup> In the Federal Republic of

Germany, "100 million marks' worth of imported manufactured products from developing countries would cause approximately 2 250 workers to be laid off. But on the other hand, the export of an equal value of manufactured products from Germany to the developing countries would create approximately 2 160 jobs".<sup>16,17</sup> Thus, the net effect on employment of a balanced increase in trade between Germany and developing countries would be practically nil; the only change would be in the structure of employment: some of the workers affected by the growth of imports from developing countries would have to change branches of industry to meet the demand for exports.

In Great Britain, the annual decrease in available jobs between 1970 and 1975 was 6.1% in textile yarns, 4.5% in the footwear and cotton industries and 2.4% in clothing. After an analysis of the causes of the job losses, the conclusion was reached that only a very small part of them was due to imports from developing countries: 0.05% for textile yarns, 0.4% for footwear, 0.8% for cotton and 1.07% for clothing.<sup>18</sup>

In the United States, for industry as a whole —except the textile industry, which has non-tariff barriers—the impact on employment of a 50% overall reduction in existing customs duties, distributed over ten years, would cause the loss of only 15 000 jobs. The elimination of non-tariff barriers would mean an increase in agricultural exports of 320 million dollars and an increase in net imports of textile products of 965 million dollars. This would lead to the creation of 1 000 jobs in agriculture and the loss of 88 000 in the textile sector.<sup>19</sup>

<sup>16</sup>Deutsches Institut für Wirtschaftsforschung, *Economic Bulletin*, vol. 14, No. 5, Berlin, 1977. Cited in ILO, *Restructuring...*, *op. cit.*

<sup>17</sup>D. Schumacher, "Beschäftigungswirkungen von Importen aus Entwicklungsländern nicht dramatisieren", *DIW Wochenbericht*, No. 1, January 1978, cited in OECD, *L'incidence...*, *op. cit.*

<sup>18</sup>Overseas Development Institute, *ODI Review*, London, No. 2, 1977.

<sup>19</sup>"Not only are aggregate effects of a significant tariff-cutting exercise small, but the effects on individual industries, on various occupational groups, and on employment in different states are minimal in most cases. ... normal industry growth can handle any adverse employment impact,

<sup>14</sup>France, Commissariat Général du Plan, *Le défi économique du tiers-monde*, report of the working group headed by Yves Berthelot and Gérard Tardy, Paris, La documentation française, 1978.

<sup>15</sup>Abstracts of these studies may be found in OECD, *L'incidence...*, *op. cit.*, annex 2; and in International Labour Organisation, *Restructuring of Industrial Economies and Trade with Developing Countries*, by Santrah Mukherjee and Charlotte Feller, Geneva, 1978.

In the OECD countries, a reduction of 50% in the customs duties of all countries for all products —except agricultural, textile and petroleum products— would at worst bring about a decrease of 0.9% in the supply of jobs and at best an increase of 1.22%.<sup>20</sup>

This information indicates that the effects of industrial relocation on employment in developed countries are very slight or insignificant in the medium term, while in the long term, this relocation, which has been discussed at such length at the national and international levels, could become a necessity.

(b) *The long term: the active population*

Most persons who will be of working age in the year 2000 were born before 1980; it is thus possible to determine their number almost exactly. If we consider the growth in the European population, for example, we see that this growth reached its high point during the years 1960 to 1965 (leaving aside the post-war 'baby-boom' (see table 6); the young people born during this period began to reach the labour market in 1978, and the last effects of this substantial growth in the birth rate will be felt around 1985.

On the other hand, since 1965 the growth in the population has been increasingly slow, sinking almost to zero in recent years. In the Federal Republic of Germany the population decreased by 1.2% in absolute figures between 1974 and 1978. This implies that from 1975 until at least the year 2000, the active population will decrease in European countries and in North America. On the contrary, the devel-

oping countries have rates of population growth which are 2.8% higher than those of the industrialized countries; although it is true that the gross birth rate decreased by 13.5% between 1960 and 1980, the mortality rate went down by 45% in the same period, which explains why the population in this area has doubled in 30 years. It now represents 72% of the world's population and will reach more than 78% in the year 2000 (see table 7). To sum up, on the one hand we have today's industrialized countries, with a population which is growing at a very low rate or even decreasing, and with the same situation about to occur in the labour force after 1985; on the other hand, we have the developing countries, with a population which is growing increasingly rapidly, and with a very large unemployed labour force. If the industrialized countries want to increase their standard of living at the same rate as from 1950 to 1980, they have three possibilities: to increase the productivity of their labour force (produce more with relatively less labour), to import foreign labour, or to subcontract part of their production.

Table 7

GROWTH OF WORLD POPULATION 1950-1975  
AND 1975-2000  
(Per cent per year)

	1950-1975	1975-2000
Europe	0.93	0.55
Eastern European countries	1.17	0.75
United States	1.38	0.77
Japan	1.91	1.15
Developed countries	1.15	0.68
Developing countries	2.25	2.09
World	1.91	1.73

Source: United Nations, *Statistical Yearbook*, 1979.

The first solution, to increase labour productivity, seems to be losing impetus today, for since the beginning of the 1970s and more specifically during recent years, productivity has tended to grow less rapidly than in the past, and even to decrease in some countries (see table 8). This problem, which is being closely

in all but 20 industries... Employment changes both by skill group and by state are insignificant, especially if the cuts are staged over a ten-year period." (See R.E. Baldwin, "Trade and Employment Effects in the United States of Multilateral Tariff Reductions", in *American Economic Review*, May 1976. Cited in ILO, *Restructuring ...*, *op. cit.*, p. 24.)

<sup>20</sup>According to the study made by A.B. Deardoff, R.M. Stern and C.F. Baum, "A Multi-country Simulation of the Employment and Exchange-rate Effects of Post Kennedy Round Tariff Reduction", in N. Akrasanee, S. Naya and V. Vichit-Vadakan (eds.), *Trade and Employment in Asia and the Pacific*, Honolulu, The University of Hawaii Press, 1977. Cited in OECD, *L'incidence ...*, *op. cit.*

Table 8

GROWTH OF LABOUR PRODUCTIVITY IN  
SELECTED DEVELOPED COUNTRIES  
(1957-1973 AND 1973-1978)  
(Per cent per year)

	1957-1973	1973-1978
United States	2.08	0.8
Japan	8.91	3.04
France	4.79	2.93
Federal Republic of Germany	4.56	3.11
Italy	5.99	0.02 <sup>a</sup>
Netherlands	3.96	2.82 <sup>a</sup>
Sweden	2.93	-0.50 <sup>a</sup>
Great Britain	3.0	0.7 <sup>a</sup>

Source: OECD, *Annuaire statistique*, Paris, 1957-1978;  
ILO, *Annuaire statistique*, Geneva, 1957-1978.

<sup>a</sup>1973-1977.

studied, particularly in the United States, has up to now proved insoluble. *A priori* it can easily be seen that there are factors such as investment in machinery, degree of skill of the labour force and technological discoveries which have an impact on the growth of productivity; but it is difficult to measure exactly what their impact is. Attempts to estimate this have been made without much success, and much of this phenomenon remains unexplained.

There is a mathematical function linking economic growth, growth of productivity and growth of the active and employed population.<sup>21</sup> This function determines what the

<sup>21</sup>This relationship may be explained in the following way:

$$EP_0 = AP_0 (1-UR_0)$$

$$PR_0 = VA_0/EP_0$$

$$EP = \frac{VA}{PR} = \frac{VA(1+x)^t}{PR_0(1+pr)^t} = AP(1-UR) = AP_0(1+ap)^t(1-UR)$$

$$EP_0 \times (1+ap)^t = \frac{(1-UR)}{(1-UR_0)} = \frac{VA_0}{PR_0} \frac{(1+x)^t}{(1+pr)^t}$$

$$(1+x)^t = (1+ap)^t \times (1+pr)^t \frac{1-UR}{1-UR_0}$$

growth in productivity from now until the year 2000 should be in order to maintain an economic growth rate similar to that of the past, taking into account labour restrictions. The answer is that for the majority of industrialized countries the rate of growth of labour productivity would have to be 50 to 200% higher in the next 20 years than at present, if these countries want to achieve the same economic growth as from 1957 to 1973 (see table 9). In the present context, these increases seem very improbable, since most technological and financial efforts in the next few years will be devoted to perfecting procedures for production and conservation of energy to replace oil, which is increasingly expensive and relatively scarce. These procedures will not be directly related to the production of an additional good, but rather to the gradual replacement of a good that already exists, and they will thus have only a very small impact on the overall growth of productivity.

Since it seems very improbable that productivity can be substantially increased,<sup>22</sup> there remains the possibility of incorporating foreign labour, as happened after the Second World War and particularly since the end of the 1960s in Western Europe.

If we start from the empirical relationship between the increase in productivity and economic growth, we can determine the labour needed at every level of economic growth, and the maximum rate of growth in relation to the available labour in the year 2000<sup>23</sup> (see table 10).

where EP = Employed Population

AP = Active Population

UR = Unemployment Rate

PR = Labour Productivity

VA = Value Added

x = Annual growth rate of value added, and pr and ap are the annual growth rates of productivity and the active population.

<sup>22</sup>See table 8.

<sup>23</sup>The simple least squares method gives the following results for the period 1958-1978:

United States:	pr = 0.50x (7.14)	R <sup>2</sup> = 0.65 (value of T)	D.W. = 2.65
France:	pr = 0.83x	R <sup>2</sup> = 0.89	D.W. = 1.60
Germany:	pr = 0.88x (15.2)	R <sup>2</sup> = 0.62	D.W. = 0.82
Great Britain:	pr = 0.89x (13.4)	R <sup>2</sup> = 0.87	D.W. = 1.89

Table 9

## GROWTH OF PRODUCTIVITY NECESSARY FOR A GIVEN RATE OF ECONOMIC GROWTH

	(1) GNP growth 1980-2000 (% per year)	(2) Growth in productivity 1973-1977	(3) Growth in productivity 1980-2000	(3)/(2) (%)
United States	3.76	0.83	2.56	+208
France	5.35	2.93	4.57	+56
Federal Republic of Germany	4.91	3.11	5.01	+61
Great Britain	3.11	1.15	2.69	+133

Source: Calculated on the basis of United Nations, *World Population Trends, op. cit.*, New York, 1979; World Bank, *World Development Report, 1979*, Washington, August 1979, and sources of table 8.

Table 10

## UNEMPLOYMENT RATE (XX) AND FOREIGN POPULATION REQUIRED (X) IN PROPORTION TO ACTIVE POPULATION ACCORDING TO ECONOMIC GROWTH FROM 1980 TO 2000

	Growth in gross national product			Growth rate of past 20 years
	2% per year	3% per year	4% per year	
Federal Republic of Germany	x 3.00	x 5.38	x 7.78	x 8.53
France	xx 7.71	xx 4.67	xx 1.57	x 1.06
Great Britain	xx 3.22	xx 0.40	x 6.72	xx 1.45
United States	xx 5.24	x 4.33	x 14.73	x 9.24

Source: Same as table 9.

Thus, France will have to maintain a strong rate of growth in order to ensure, if not full employment, at least a limited rate of unemployment. The United States, on the contrary, will be unable to ensure a growth of rate of 2.4%

without resorting to foreign labour. The situation of the Federal Republic of Germany is, from this point of view, serious: if the growth of productivity continues to be related to economic growth in the same way as during the past 20 years, it will be necessary to accept from 1.7 to 3.0 million foreign workers to maintain production growth rates of 2 to 4% annually. If we take into account the fact that there are currently already 4 million foreigners in Germany, of whom 1.8 million are workers (i.e., 100 active workers to 115 inactive persons), this country would have between 7.6 and 10.3 million foreigners in the year 2000, that is to say, between 12% and 16% of its population compared with

where: pr = rate of growth of productivity  
x = rate of growth of gross national product.

This relationship between the growth of productivity and the growth of production - or "Verdoorn's Law" has been studied since the 1940s. See Solomon Fabricant, *Employment in Manufacturing, 1889 to 1939*, NBER, 1942; and P.J. Verdoorn, "Fattori che regolano lo sviluppo della produttività del lavoro" in *L'Industria*, 1949.

6.5% in 1978.<sup>24</sup> Only Great Britain appears to be able to maintain its 1960s' growth rate without any great structural change.<sup>25</sup>

The question thus arises as to whether it is advisable for a developed country to receive a foreign population which represents 12% to 16% of its own population. The difficulties met by the immigrant workers, particularly in France, where in 1975 they only represented 6.5% of the French population, may raise some doubts in this respect; however, in the absence of such legislation as that of Switzerland, it may be very difficult in a crisis to dismiss these potentially unemployed workers and send them back to their countries of origin. In the future it is quite probable that governments may wish to avoid the unfortunate experience of subsidies for going back to the country of origin, such as those given in France; the alternative then, will be to produce less (see table 11) or to concentrate more on the production of capital-intensive goods and technology and more labour-intensive production to developing countries.

## 2. The comparative advantages of industrial relocation for the developed countries

It is not our intention to debate the theoretical

Table 11

POTENTIAL ECONOMIC GROWTH,<sup>a</sup> 1980-2000  
(Per cent per year)

	1957-1973	1980-2000
Federal Republic of Germany	4.90	0.60
France	5.35	4.18
Great Britain	3.11	2.7
United States	3.76	2.35

Source: Same as table 8.

<sup>a</sup>Using labour elasticity in relation to the gross national product and data on the active population (see footnotes 21 and 23).

<sup>24</sup>The data concerning foreign population were extracted from Eurostat, *Emploi et chômage 1972-1978*, Luxembourg, July 1979.

<sup>25</sup>This entire argument presupposes stability of the relationship between growth of productivity and growth of the economy.

problem of comparative advantages or their general application to the distribution of investment between the centre and periphery of the world economy. We will discuss only the concrete case of the most obvious advantages of location in the periphery for enterprises of the central countries. We are particularly interested in elucidating the problem of how much the difference in wages between developing and developed countries is counterbalanced by the differences in productivity. We are not discussing the problem of 'comparative disadvantages', because we would have to analyse them at the microeconomic level, case by case; we could not generalize about the existence or non-existence of infrastructure, skilled labour, basic services, communications, transport, education and health services and the rest of the external economies, or the political risks involved. Up to now, these latter considerations have prevailed; but it is probable that the importance of the 'advantages' will increase in the future.

### (a) Wages

*A priori*, the difference between the wages paid to workers in developing countries and those in developed countries is one of the most comparative advantages for transnational companies. These firms usually justify the low wages paid in developing countries by citing the low labour productivity in these countries. Thus, according to them, each unit produced contains the same wage proportion in the two regions. It is precisely this theoretical problem, which has long been a part of the rhetoric regarding redeployment, which we are going to study from the quantitative point of view in the following paragraphs.

The essential point is to establish a relationship between labour productivities, both at the national level (between activity sectors) and at the international level. If labour productivity is expressed in homogeneous physical units of production per worker (see table B of the appendix), it is possible to compare it between countries. In most cases, however, the same sector produces a heterogeneous group of goods, which makes it very difficult to estimate an internationally comparable rate of produc-

tivity. At the same time, it is impossible to determine the proportion of wages per physical unit produced.

There are various ways this question can be approached. Below, we will summarize four of them and use them to estimate the relative share of wages among sectors and at the international level. In order to do this, a sample was taken consisting of 18 countries,<sup>26</sup> 4 industries and the manufactured products sector as a whole in 1973.<sup>27</sup> Special consideration will be given to the cases of transnational corporations located in developed and developing countries.

(i) *Nominal wages*

Analysis of the data shows that there is a wide gap between the average nominal wages paid to industrial employees and workers in developed and developing countries (see table 12). In the latter group of countries, the average wages do not exceed 10% of those paid in the United States, while in turn, European wages are 20% lower than United States wages. In 1980, the evolution of wages and exchange rates tended to emphasize even more the difference between developed and developing countries, since European and United States wages have practically become equal.

This comparison seeks only to determine the wage costs for the transnational corporation, and thus the money equivalents are calculated according to the exchange rate. If the purpose were to compare the standard of living of the wage earners, we would have used a parity exchange rate based on the prices of a basket of goods.

A comparison of the average wages within each sector shows the same tendency in the different groups of countries: in the manufacturing sector, workers in the textile industry are the most poorly paid, while the best wages are those earned in the mineral and metal indus-

tries. However—as another consequence of structural heterogeneity—the difference between the highest and lowest wages is greater in the developing countries (80%) than in the developed countries (50%, excluding Japan) (see table C of the appendix).

Wages in the textile industry are closer to the average wage in the developing countries than in the developed countries, due to the relative importance of this sector in the first group of countries. In the developing countries, only 3.9% of the employed active population works in the manufacturing sector—compared with 20% in the developed countries—and within this 3.9%, 21% is in the textile industry, compared with 6% to 7% in the developed countries (see table D of the appendix).

(ii) *Wages weighted by productivity, by industrial sectors*

If productivity is measured by the quantity of homogeneous goods produced by each employee and worker—in the iron and steel industry, for example—then to produce 1 000 tons of steel, 3.5 man-years would be needed in the United States, 9.2 in Great Britain and 15.7 in Brazil.<sup>28</sup> If wages in Brazil are one-tenth of those in the United States, however, the cost of labour contained in each ton of steel will be 2.2 times greater in the United States than in Brazil.

Another way of approaching the problem consists of analysing the labour cost per unit of value added. This relationship, which also represents the distribution of value added between remuneration of capital and labour, is on average twice as much in the developed countries as in the other countries, with Japan coming somewhere between the two extremes (see table E of the appendix).

Another method used to estimate interna-

<sup>26</sup>The developing countries are India, Indonesia, Kenya, Nigeria, Philippines, Mozambique, South Korea, Colombia, Malaysia, Brazil, Mexico, Hong Kong and Singapore, while the developed countries are Japan, Belgium, the Federal Republic of Germany, Sweden and the United States.

<sup>27</sup>The industries are: textiles (ISIC 321), iron and steel (ISIC 371), non-ferrous metals (ISIC 372), metals (ISIC 381), and the manufacturing sector (ISIC 3).

<sup>28</sup>This difference between productivities is not only due to the skill of the labour force: among other causes may be mentioned (i) the age of the machines; (ii) the technological level; (iii) sub-contracting: in the United States, for example, many jobs are done by outside enterprises and are thus counted as services, while in the developing countries these same jobs are done by employees of the steel works.

Table 12  
 AVERAGE WAGE PER PERSON EMPLOYED  
 (United States = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metal-lurgy	Manu-factures
Developing countries <sup>a</sup>	10.0	9.1	11.2	10.2	8.0
Developed countries <sup>a</sup>	78.2	76.2	80.1	78.6	79.0
Developed countries except Japan	94.4	83.6	90.5	90.9	91.5

Source: United Nations, *Yearbook of Industrial Statistics, 1975*, New York, 1977; International Labour Organisation, *Yearbook of Labour Statistics, 1977*, Geneva, 1978; United Nations, *Monthly Bulletin of Statistics*, New York.

<sup>a</sup>These countries are listed in footnote 26.

tional productivity by industrial sector is to deflate the value of the goods produced, using a price index, in order to obtain comparable amounts. The amounts thus obtained, divided by the number of employees and workers, yield a new measure of productivity.<sup>29</sup> Table F of the appendix shows the results obtained using a 'basket of goods' as a price deflator.<sup>30</sup> To increase the precision of such estimates, it would be necessary to use a deflator for each sector and not one with a single price per country. The results obtained by this method show that the wages paid by firms in the developing countries are from 10% to 25% of those paid in the United States for the same quantity of goods produced.

The last estimation method we will mention is based on a study by the International Labour Organisation,<sup>31</sup> which links the level of

development and productivity. A series of regressions based on a group of 18 countries allows us to determine the elasticity of this productivity in relation to the per capita gross national product. This elasticity reflects the effect on the productivity of the industry concerned of a one-unit increase in the productivity of the whole economy. According to the results, the most productive sectors are iron and steel and non-ferrous metals, while the least productive is the textile industry. The labour cost per unit of value added is from 45% to 70% lower in the developing countries (see tables G and H of the appendix).

The results obtained are summarized in tables 13 and 14 and show that the differences in wages continue to be substantial even when they are weighted by productivity.

### (iii) Wages in branches of transnational corporations

The calculations made above concern the whole of given productive sectors; but in the particular type of enterprise represented by the branches of transnational firms in the developing countries the productivity of workers is usually not much below that of the parent firms in the developed countries.

Two facts confirm this supposition: first, the transnational corporations use technology in the developing country which is not very far

<sup>29</sup>Productivity  $P_{ij}$  of sector  $i$  for country  $j$  may be expressed thus:

$$P_{ij} = \frac{O_{ij}}{P_j \times E_{ij}}$$

where  $O_{ij}$  is the value of production,  $P_j$  is the price deflator and  $E_{ij}$  the number of employees in sector  $i$  of country  $j$ .

The expenditure on wages per unit produced would be:

$$SE_{ij} = \frac{S_{ij}}{E_{ij} \times P_{ij}} = \frac{S_{ij} \times P_j}{P_{ij}}$$

where  $S_{ij}$  represents the wages paid in sector  $i$ .

<sup>30</sup>See I. B. Kravis, Z. Kennessey and others, *A System of International Comparison of Gross Product and Purchasing Power*, Johns Hopkins University Press, 1975.

<sup>31</sup>See M.F. Lydall, *Commerce et emploi*, International Labour Organisation, Geneva, 1976.

Cuadro 13

SUMMARY OF NOMINAL WAGES AND UNIT COSTS OF PRODUCTION  
(United States = 100)

	Average nominal wage	Share of wages in value added	Wages weighted by productivity		Wage costs per unit produced <sup>a</sup>
Developing countries	8.0	47.3	17.3	39.3	45 <sup>b</sup>
Developed countries	79.0	94.5	-	73.6	-
Japan	47.0	77.3	44.3	64.3	-
Federal Republic of Germany	-	-	99.8	-	-

Source: Same as table 12.

<sup>a</sup>Only for steel.

<sup>b</sup>Brazil.

Table 14

DEVELOPING COUNTRIES: SUMMARY OF DIFFERENT MEASUREMENTS OF  
NOMINAL WAGES AND UNIT COSTS OF PRODUCTION, BY BRANCHES  
OF INDUSTRY  
(United States = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metal-lurgy	Total manufactures
Share of wages in value added	59.8	52.7	50.7	60.5	47.3
Average nominal wage	10.0	9.1	11.2	10.2	8.0
Wage weighted by productivity					
Price deflator method	21.3	9.7	23.0	20.0	17.3
Degree of development method	58.8	37.3	34.4	53.9	39.3
Wage cost per unit produced	...	45 <sup>a</sup>	...	...	...

Source: Same as table 12.

<sup>a</sup>Brazil.

behind that of the developed country; second, this technology is usually quite standardized and automated, which means that the differences in labour skills between one country and another do not have a significant repercussion on labour productivity.

Various studies of concrete cases confirm this general evaluation. The United States Tariff Commission, in its report to the Presi-

dent in September 1970,<sup>32</sup> notes that the productivity of workers in foreign branches of United States corporations engaged in the assembly or processing of products originating in the United States "is generally similar to that of

<sup>32</sup>See U.S. Tariff Commission, *Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedules of the U.S.*, Washington, September 1970.

workers doing the same jobs in the United States". Donald W. Baerresen arrives at similar conclusions in his analysis of the border industrialization programme in Mexico; he states that, in certain cases —electronics and clothing, for example— the productivity of workers in Mexico is actually higher than that of workers in the United States engaged on similar operations.<sup>33</sup> Otto Kreye, in his study on world-market-oriented industrialization of developing countries and free production zones,<sup>34</sup> shows that the productivity per worker in the textile, electronics and clothing factories in Malaysia is analogous to that of the United States and the Federal Republic of Germany. Y.S. Chang, in his study of the semiconductor industry,<sup>35</sup> states that after a learning period the productivity on the assembly lines in Hong Kong, Taiwan, South Korea and Singapore is greater than that prevailing in the United States. This is due, among other things, to the fact that in the United States the workers who accept these jobs are unskilled, marginal workers who change jobs frequently. Referring to another type of industry, Celso Furtado states that the physical productivity of labour in the production of Mercedes Benz trucks in Brazil is 10% higher than in Germany.<sup>36</sup>

#### (b) *Other comparative advantages*

The low wages in the developing countries are only one of the advantages that transnational corporations can get from relocating their production. Lower costs of production due to a greater supply of natural resources; energy savings in the cases of industries which consume a high proportion of energy; absence of antipollution regulations, and fiscal advantages are major additional reasons for moving to de-

veloping countries. In addition, these corporations usually dominate the markets easily and thus ensure the long-term success of their business.

The ample supply of natural resources may mean lower costs of production. It will obviously be cheaper to exploit an 'open pit' mine than to extract from a deep one; for example, in two concrete cases of iron ore exploitation, the cost per ton of unrefined mineral delivered by rail from an underground mine was 3.3 times greater than that of ore from a strip mine.<sup>37</sup> Similarly, agricultural exploitation in rich soil which dispenses with the need for fertilizers and artificial irrigation, will be significantly cheaper than another case where these elements are needed; in the case of beef, the prices to the producer in dollars per kg of live weight were in 1976, as an annual average, 0.34 in Argentina, 0.62 in Australia and 0.75 in the United States; while at the other end of the scale they were 1.35 in the Federal Republic of Germany, 1.49 in France and 1.61 in Japan.<sup>38</sup>

The possibility of saving energy is another comparative advantage that may motivate some industries to relocate. Since the oil crisis, the developed countries have attempted to manage their own resources carefully and avoid overloading their balance of payments with unnecessary oil imports. As a result, in response to this situation, some industries which consume large amounts of energy might move to developing countries with abundant energy resources. Thus, the production of gas linked to the extraction of oil could be used advantageously in local industrial facilities such as metallurgy, iron and steel and chemicals which have high energy requirements. Agreements of this sort may be made which would benefit the entire international community: in this way the developed countries would avoid increasing their balance-of-payments deficits, the developing countries would benefit from a rare resource which would otherwise be wasted, and the

<sup>33</sup>See Donald W. Baerresen, *The Border Industrialization Program of Mexico*, Lexington Books, Mass., 1971.

<sup>34</sup>See Otto Kreye, *World Market Oriented Industrialization of Developing Countries: Free Production Zones and World Market Factories*, Max Planck Institute, Federal Republic of Germany, 1977 (mimeographed).

<sup>35</sup>See Y.S. Chang, *The Transfer of Technology: Economics of Offshore Assembly. The Case of the Semiconductor Industry*, UNITAR, research report No. 11, New York, 1971.

<sup>36</sup>See Celso Furtado, *Revue Tiers Monde*, Paris, April-June 1978.

<sup>37</sup>See United Nations, *The World Market for Iron Ore*, ST/ECE/Steel/24, pp. 90 and 91.

<sup>38</sup>See UNCTAD, *Consideration of International Measures on Meat, Element of an International Arrangement on Beef and Veal*, Report of the UNCTAD secretariat, TD/B/IPC/Meat/2, Geneva, January 1978, p. 14.

transnational corporations would increase their profits.

Relocation is much less beneficial for developing countries when the reason for moving is pollution. In most developed countries, governments have established regulations against pollution, which mean an increase in production costs of the enterprises affected, and the transfer of polluting industries to developing countries where no such regulations exist is a substantial comparative advantage in these circumstances. From 2% to 3% of the total sales of enterprises producing non-ferrous metals, iron and steel and foodstuffs are used to cover the costs of the fight against pollution in the developed countries. In the period 1973-1979, 6% of investments in the industrial sector were aimed at combating pollution.<sup>39</sup>

Enterprises which produce in developing countries, however, avoid such expenditures at the expense of polluting the environment of these countries.

Finally, the fiscal advantages granted by almost all developing countries are a major attraction for transnational corporations, especially in comparison with the high taxes they must pay in the developed countries for the same activities or on their overall profits.

### (c) *Some policy conclusions*

The results of quantitative analysis show that the significant wage differences between developing and developed countries are not matched by analogous differences in productivity. Whatever method is used, the results are the same: the wage costs of a transnational corporation are from 60% to 80% lower in the entire industrial manufacturing sector of the developing countries in question than in the United States (see tables 13 and 14). Explanation of the reasons for this is beyond the capabilities and intentions of this article. We will merely make a brief reference to what is significant in the field of economic policy.

Wage levels vary from one country to

another depending on the capital available per active person for the country as a whole<sup>40</sup> and on the power of negotiation of unionized workers in the income distribution struggle. In the developing countries, where average productivity and wages are low, if an industry is introduced which has greater productivity, the wages distributed will be in line, sometimes with a slight rise, with the national average and will be lower than the growth of productivity in this industry. Thus, in different countries there may be large differences in wages between workers who produce similar goods and even between those on an identical production line. One of the results of this seems to be the tendency to lower the highest wages in the developed countries without at the same time increasing the lowest ones in the developing countries. This may happen because in developed countries access to cheaper products from developing countries may lead to the closing down of industries which are labour intensive and therefore not competitive, with resultant unemployment and weakening of the workers' power of negotiation. At the same time, in the developing countries, the higher export prices obtained from manufactured products (or the greater volume exported) do not have a direct impact on the general wage level. Besides, in the case of the transnational corporations in the developing countries which produce for export, there is no correspondence between labour costs and the purchasing power of the consumers of the goods produced, since these consumers are foreigners.<sup>41</sup>

In short, we have demonstrated that in the cases considered there is a big difference in wages so that the transnational corporations are extracting surpluses from the low wages paid in underdeveloped countries. The solution to the problem cannot be the simplistic one of increasing wages, with no relation to average national levels. This option would not be feasible, and even if it were, the establishment of enclaves of high wages would not benefit the developing country. The advisable policy

<sup>39</sup>This percentage was 22% for non-ferrous metals, 17% for primary metals, 14% for steel and 16% for paper (see U.S. Department of Commerce, *Survey of Current Business*, June 1978).

<sup>40</sup>See Celso Furtado, *Prefácio a nova economia política*, Paz e Terra, Rio de Janeiro, 1976, p. 119.

<sup>41</sup>*Ibid.*, p. 187.

would be to divert this surplus towards expenditures related to national development, by means of government appropriation<sup>42</sup> either through export taxes<sup>43</sup> or direct State export; this would have to be done in such a way that

the comparative advantages allowing access to the international market were not lost, but were reduced to a minimum: in other words, the prices would be the highest that international competition would allow.

## IV

### Policy alternatives

In the preceding sections we considered the types of industrialization in developing countries and the policy of industrial redeployment of the developed countries. It is now time to analyse possible and desirable policies for meeting the needs of the Latin American countries and the realities of the international economy. We shall refer to 'open' industrialization based on comparative advantages which is compatible with the policies of the developed countries, and 'autonomous and popular' industrialization, which we believe to be suitable to the requirements of the developing countries. In each case, these are not exclusive models but predominant ones: in the case of the predominance of open industrialization there will also be, complementarily, a certain amount of autonomous and popular subordinate industrialization, and vice versa.

<sup>42</sup>"The heart of the matter is that the opposing claims of the labour force and of the owners-entrepreneurs must be harmonized with the social appropriation and use of some of the value created: a process which in all known capitalist and socialist systems takes place through the State (all the more so, obviously, in the case of State-owned or controlled enterprises)." Aníbal Pinto, "The opening-up of Latin America to the exterior", *CEPAL Review*, Santiago, Chile, No. 11, August 1980, p. 51.

<sup>43</sup>"Even a substantial increase in the price of this labour (measured in terms of what it produces for the international market) will not prevent it from still being cheap for transnationals which have access to the markets of the central countries, where wage rates for the same work are presently from 5 to 10 times higher. The countries with cheaper labour could introduce a tax on the export of manufactures in order to cover, totally or partially, the difference between their wage rates and those of other peripheral countries competing on the same markets. It would not be surprising if the periphery moved towards a co-ordinated fiscal policy for the purpose of retaining a part of the surplus which the transnationals derive from exploiting cheap labour." Celso Furtado, *Criatividade e dependência na civilização industrial*, Paz e Terra, Rio de Janeiro, 1978, p. 122.

#### 1. 'Open' industrialization based on comparative advantages

##### (a) General characteristics

'Open' industrialization based on comparative advantages has recently been proposed as a desirable model for developing countries. The premise is that each country should produce the goods with which it can compete internationally, whether in mining, agriculture or industry. The industrial sector is not assigned any leadership role in development; rather, this role is taken by 'competitive' activities or those outside the international market (construction, commerce, financial services, tourism, etc.). The financial intermediation sector, which transfers resources between the productive sectors and links the internal market with the international one, has a prominent place in all this.<sup>44</sup> The comparative advantages here are the lower costs of natural resources and labour. That is, these advantages are based on the exploitation of resources which in many cases are not renewable and on the low standard of living of the population; in other words these are advantages that the developed countries can extract from underdevelopment.

In support of this model, the example of Japan is cited, although in our opinion it serves precisely to support the opposite case.

In Japan, industrialization was based on sectors which do not appear to have compar-

<sup>44</sup>See Fernando Fajnzylber, *Dinámica industrial en las economías avanzadas y en los países semindustrializados*, Mexico City, June 1980, p. 76 (mimeo).

ative advantages. "The Ministry of International Trade and Industry (MITI) decided to establish industries in Japan which would require the intensive use of capital and technology: industries which, considering the comparative costs of production, would be extremely inappropriate for Japan—steel, oil refining, petrochemicals, automobiles, aeronautics, industrial machinery of all kinds, and electronics, including electronic computers. From a static and short-term point of view, the encouragement of such industries would seem to be in conflict with economic rationality. But taking a more long-term view, these are precisely the industries in which income demand elasticity is greatest, technological progress most rapid, and labour productivity rises fastest. It was clear that without these industries—solely with light industry—it would be difficult to employ a population of 100 million and raise its standard of living to equal that of Europe and the United States; one way or another, Japan must have a chemical industry and heavy industry".<sup>45</sup>

At the same time, Japan closed its doors to foreign capital, established a powerful corporate base linked to the State and, on the basis of its protected internal market, broke into the international markets. This is an example of protection and specialization in activities which are most advantageous for economic development and national independence, in line with the views of the ruling political and managerial groups.

#### (b) *The newly industrializing countries*

The case of the newly industrializing countries is cited as an example of 'open industrialization'. To analyse it, we must distinguish at least two different points: first, the heterogeneity of these countries, and second the fact that in some of them the essential features attributed to this type of industrialization are of secondary importance in their overall development process.

In the first place, there is not just one single type of 'newly industrializing countries'. There are basic differences, for example, between Brazil and Mexico, Singapore and Hong Kong, and South Korea and Taiwan, to give three examples. Table 15 shows some of these differences, not only as regards size—in some cases these countries are very large nations and in others, city-States—but also as regards economic structure.

This type of industrialization has been described as having two characteristic features: a growth policy oriented towards the exterior and greater exploitation of comparative advantages. However, the fulfilling of these two requirements depends on the particular circumstances of each country—especially its size, supply of natural resources and existence of an internal market—rather than on the application of a specific theoretical model; thus, these conditions fully exist in Hong Kong and Singapore, but they apply only to a certain extent in South Korea, and they are lacking in Brazil and Mexico. It is obvious that city-States, without natural resources and with a very small internal market, have no other alternative but the external market, for which purpose they must exploit their comparative advantages. In the case of Singapore, one of the advantages, is its geographical location, which facilitated the installation of large oil refineries, while in that of Hong Kong, the advantages are the proximity to China, cheap labour and the international communications network.

The case of Korea is similar to the Japanese example: an autonomous development model, with little foreign capital and with specialization arising from a policy structured by the government and national management. Thus, in 1975 exports amounted to 13.5% of the gross national product, and 74.6% of them consisted of manufactures, but only 21.0% of total production of manufactures was exported. In the same year the production of goods and services was 1.8 times greater than in 1970 and 1.2 times that of 1973 at constant prices. "This expansion of production was primarily achieved by the rapid growth in the manufacturing sector, led by heavy industry and chemicals, which re-

<sup>45</sup>Statement by Vice-Minister of Industry Ojimi, cited by Fernando Fajnzylber, *op. cit.*, pp. 54 and 55.

Table 15

## SOME STRUCTURAL CHARACTERISTICS OF FOUR "NEWLY INDUSTRIALIZING COUNTRIES"

	Population (millions of inhabitants in 1976)	Per capita GNP (1976 dollars)	Percentage share of industry in GNP (1976)	Exports as percentage of GNP (1977)	Percentage of manufactures in total exports (1977)	Exports as percentage of manufacturing production (1974)	Percentage of foreign capital in industry (1970)	Total external debt servicing expenditure (1977)
Brazil	110.0	1 140	39	8	23	4.7	49	41.2
Mexico	62.0	1 090	35	9	27	5.0	36	45.5
South Korea	36.0	670	34	13.5 <sup>a</sup>	75 <sup>a</sup>	21.0 <sup>a</sup>	5	8.8
Singapore	2.3	2 700	35	111 <sup>b</sup>	41	77.2	...	2.4

Source: OECD, *L'incidence...*, *op. cit.*, Paris, 1979; UNCTAD, *Handbook of International Trade and Development Statistics*, New York, 1979; Fernando Fajnzylber, *op. cit.*; Bank of Korea, *Quarterly Economic Review*, March 1978.

<sup>a</sup>1975.

<sup>b</sup>1976.

quire more intermediate goods than other industries",<sup>46</sup>

The situation in Brazil and Mexico is different, since the export coefficient in relation to the product is lower than 9%, and less than 5% of manufactured production is exported. These are typical examples of industrialization by import substitution, with the complementary export of a minor part of industrial production. In the case of Mexico, the border activity specifically devoted to international subcontracting —'maquila'— amounts to only 2.3% of national industrial production.

In these cases, we can see that international subcontracting based on cheap labour is only one element in the industrial activity of these 'newly industrializing countries' and that only in the city-States —which lack natural resources and an internal market— is it the most important element.

(c) *Some effects of predomination of the 'open' export-oriented model*

A general assessment shows the advisability of this type of industrialization in countries with a small internal market and scarce natural resources where there is no other alternative: but it cannot serve as a model for countries with

other possibilities, where it would take only minor, complementary forms. In principle, the firms which practice this model may be more closely tied to the economy of the developed country than to the rest of the economy of the developing country, since they are usually linked in the production chain of transnational corporations. In many cases they are enclaves, importing raw material or parts, incorporating cheap labour and re-exporting these same elements in a more processed form, all under the control of the transnational corporation.

From the economic point of view, this a very unstable activity, since it implies very low investment of fixed capital and, if labour or fiscal problems arise, it is easy and not very costly to move these activities to another more favourable country. It is estimated that the average amount of fixed capital needed for each unit of work in the export processing zone of Kaohsiung (Taiwan) is about US\$ 1 500, while in Mexico, en 1974, the average for subcontracting firms was US\$ 840 per worker employed.<sup>47</sup> To appreciate the insignificance of

<sup>46</sup>See Keuch Soo Kim, "Interindustry Analysis of the Korean Economy in 1975", in Bank of Korea, *Quarterly Economic Review*, March 1978, p. 23.

<sup>47</sup>See Constatine V. Vaitsos, *Employment Problems and Transnational Enterprises in Developing Countries: Distortions and Inequality*, ILO, World Employment Programme, Geneva, 1976. The figures cited in Vaitsos' work are taken from the Asian Development Bank, *South East Asia's Economy in the 1970s*, Longman, 1971, pp. 306 *et seq.*, and refer to Taiwan. For Mexico, see Víctor Manuel Bernal Sahagún, *El impacto de las empresas multinacionales en el empleo y los ingresos: el caso de México*, ILO, World Employment Programme, Geneva, 1976.

these figures, we may compare them with the US\$ 31 000 in capital invested per manual and non-manual worker on average in manufacturing in the United States. An extreme example of this system, which correctly illustrates its nature, is the notice which appeared in the international press early in 1979, announcing the construction in Japan of a floating factory which would anchor where labour was cheapest, with the intention of setting sail again when it learned of another more favourable location.

Another serious problem affecting these activities is that they depend entirely on the access they have to the markets of the developed countries. A resurgence of protectionist policies would eliminate this type of industry and that might very well happen, given the unemployment situation in the developed countries, although in the OECD study cited it was considered improbable, since it would provoke a reduction in imports by the 'newly industrializing countries' and would also prevent them from paying their foreign debt service, both of which situations would be harmful to the developed countries.<sup>48</sup>

From another point of view, it does not seem right to consider very low wages as a comparative advantage to be exploited, rather than as a defect of underdevelopment which should be eliminated. Giving the title of 'industrialized country' to a nation where the type of activity just described predominates (which is more akin to the sale of cheap labour than to industrial production) would be like calling a country which has no oil but refines it an 'oil producer', or using the term 'maritime country' to describe one which has no national fleet but grants a flag of convenience.

On the political level, the maintenance of low wages and poor working conditions (long working hours, little protection against accidents, no social security, etc.), implies that there are no trade unions and that there is an authoritarian government, or that there is exploitation of foreign immigrants willing to work under the worst conditions.

<sup>48</sup>See OECD, *op. cit.*, pp. 18 and 19.

## 2. Autonomous and popular industrialization

### (a) Capital goods

In underdeveloped countries, industrialization is the basic aspect of their economic development. It is not a question of using it as a source of external resources —the balance of payments is generally unfavourable— but of increasing the productive capacity of the country, creating external economies, training the labour force and applying technologies which will increase productivity. This is an indispensable requirement in order for the country to have the physical possibility of being autonomous. In this type of industrialization, the capital goods industry is essential,<sup>49</sup> since it is the foundation of the industrial structure, of the conditions under which capital is accumulated, and of the international competitiveness of the developed countries, but it is still weak in the underdeveloped countries. In particular, the capital goods industry is the basis for the accumulation of capital and the principal vehicle of technical progress, which in turn has a direct impact on labour productivity and investment. Likewise, it sustains autonomous industrial development, since it generates the equipment necessary to install other sectors of production.<sup>50</sup> In addition, it requires a substantially

<sup>49</sup>The capital goods sector may be divided into three parts: "(1) the section for producing producer goods (machine tools, the corresponding automation equipment, and data processing systems in the broad sense); (2) the section which produces intermediate goods, heavy machinery, heavy electrical equipment, control and monitoring apparatus, miscellaneous general equipment (pumps, compressors, valves), and electrical equipment, and (3) the section producing plant for the manufacture of consumer goods (textile machinery, plastic processing machines, machines for agriculture and the food industry, various kinds of electrical equipment)". (See France, Ministry of Industry and Research, *La division internationale du travail*, Paris, La Documentation Française, 1976, vol. I, p. 105.)

<sup>50</sup>National control of the development of the engineering industries —a goal which has absolute priority, both from the point of view of the imperative need for national independence and from that of maintaining dominance over the 'peripheral countries' (understood from the perspective of the developed countries)— is dependent on mastery of these technologies and the development of the necessary innovations (see France, Commissariat Général du Plan, *La spécialisation internationale des industries à l'horizon 1985*, Paris, La Documentation Française, 1978, p. 239.)

lower capital intensity than that of the average for manufacturing industry. In the cases of the Federal Republic of Germany and the United Kingdom—which differ substantially in the age of their capital equipment—if the average for manufacturing industry is taken as being equal to 100, the relationship between the stock of capital and the cost of labour is 54, 72 and 77 for metal products, non-electrical and electrical machinery in Germany, while in the United Kingdom this ratio was 60 for instruments, mechanical and electrical equipment.<sup>51</sup> At the same time, the wages paid in these industries are higher than the average: 106 in non-electrical machinery, 121 in transport equipment and 115 in electrical machinery.<sup>52</sup> The proportion of research in the same countries and branches was 385, 108 and 94. In 1968-1970, employment in these branches came to 38.5% of total employment in manufacturing.<sup>53</sup>

In the international trade in capital goods, 87.5% of world exports originated in capitalist developed countries, 10% in socialist countries and only 2.5% in developing countries in 1977. If we consider the external trade balance, between 1969 and 1976 the capitalist developed countries dropped from a surplus of 1.3 billion dollars to a deficit of 27.1 billion dollars on total goods, but in the capital goods sector the surplus rose during this period from 16.8 to 77.3 billion dollars. Thus we can rightly say that “the capital goods sector is the central nucleus of the competitiveness of the advanced industrial economies with respect to the rest of the world, and this situation is proved by Europe, the United States and Japan”.<sup>54</sup>

It is clear from the above that the developing countries must advance in this branch of industry as an indispensable requirement for

improving their whole productive system and strengthening their national autonomy. Moreover, generally speaking the investment requirements are not high, the technology is well-known and the internal market of the developing countries is potentially very large. Imports of capital goods by the developing countries, which might—under the right set of circumstances—be largely replaced, amounted to 93.2 billion dollars in 1977; the first move should be to change the policy of these countries, which at present favour the import of capital goods. In addition, specialization could take place which might lead to the establishment of extensive trade in parts and components within these sectors among underdeveloped countries.

#### (b) *Mass-consumption*

The other industrial sector which should have priority, along with that of production of capital goods, is the sector related to the supply of popular consumer goods. Here, the beneficiary of the development process is the general population, so that when selecting the types of goods to be produced, priority should be given to those needed by the majority, who in the underdeveloped countries have low and medium incomes. A similar strategy has been advocated recently by some international organizations. Thus, the ‘endogenous’ industrialization strategy proposed by UNIDO for the developing countries is aimed at satisfying the needs of the general population and involves the adjustment of industrial production to the manufacture of the products needed for this purpose. The impulse for this model would arise within the country itself and its purpose would be to satisfy the basic needs for food, clothing, housing, medical services, education and transport. It would be a ‘low-key’ type of industrialization aimed at meeting the basic requirements with a low capital/labour ratio, taking maximum advantage of local resources and the action of small and medium-sized enterprises.<sup>55</sup>

<sup>51</sup>See United Nations, Secretariat of the Economic Commission for Europe, *Structure and Change in European Industry*, New York, 1977, p. 44.

<sup>52</sup>This refers to the weighted average for Belgium, Finland, France, the Federal Republic of Germany, Italy, the Netherlands, Norway, Sweden and the United Kingdom, with the total for manufacturing equalling 100. See *Structure and Change...*, *op. cit.*, p. 66.

<sup>53</sup>*Ibid.*, p. 104.

<sup>54</sup>See Fernando Fajnzylber, *Dinámica industrial...*, *op. cit.*

<sup>55</sup>See Héctor Soza, “The industrialization debate in Latin America”, *herein*.

This strategy has received the support of representatives of developed countries as a means of cutting back even more on scarce international aid; but they forget to point out that this type of industry must form part of a general process of industrialization based on the capital

goods industries. In other words, they accept an industrialization which is 'popular' from the point of view of its beneficiaries, but not one which serves as a basis for national economic independence.

## Some conclusions

(a) Industrial 'redeployment' is more a subject of discussion than a significant reality. During recent years the developed countries have further consolidated their position in world exports of manufactures (82.6% in 1963 and 83.5% in 1976). Moreover, they export to the whole group of newly industrializing countries more than they import from them.

(b) In the short term, the developed countries might suffer from a decrease in the number of jobs as a result of the transfer of industries, which would increase current unemployment; but in the medium term the increase in exports to developing countries would more than compensate for the loss of jobs. In the long run (from 1985 until at least the year 2000), the low growth rate or actual decrease in the active population will reduce the growth rate of their economies, unless productivity is increased, foreign labour is brought in or some labour-intensive activities are subcontracted outside. The difficulties involved in the first two solutions may lead to relocation.

(c) For the transnational corporations, the most important comparative advantage is the wage differential between developed and developing countries. Average salaries in industry in the latter countries are 12.5 times lower than in the United States; and even if this figure is weighted for differences in productivity, we may conclude that the transnational corporation will have to pay only some 20% to 40% of the corresponding United States wage costs. Moreover, the productivity of branches of transnational corporations in developing countries is normally similar to that of the parent companies.

(d) In the developing countries, industrialization is the basic factor in economic development. The capital goods industry, as an indispensable element for placing national

autonomy on a solid foundation, forms the basis of this process. At the same time, these countries must give priority to industries which produce mass-consumption goods, as complementary to industrial development but not as its main focus.

(e) There is not a mutual exclusiveness but rather a complementarity between industrial production for the internal market and for export. The basic market is the internal one, but exports of manufactures are a strong support because they bring in foreign currency and, in some cases, because they enable a country to reach the necessary scale of production. The relative importance of the external market increases in small countries.

(f) The 'open' industrialization model based on present comparative advantages tries to promote the low cost of labour and natural resources (often non-renewable), does not contribute to consolidating national autonomy or providing the people with goods, and may lead to the veritable cultivation of underdevelopment. It may be a solution for countries with scarce natural resources and a tight internal market, or it may aid development in a more complex system of industrialization, but it cannot in itself be a model for developing countries.

(g) The type of development attributed to the newly industrializing countries cannot be presented as a model for all developing countries, due to their heterogeneity and because the features attributed to this model—external openness and industrialization based on comparative advantages—are actually either non-existent or of secondary importance in most of these countries (Japan and South Korea, which are the most successful examples, did not at the beginning have comparative advantages in the activities which are at the basis of their in-

dustrial development and are not open to the exterior, while as for Brazil and Mexico, they export less than 5% of their production of manufactures).

(h) A model based on 'labour discipline'

and low wages is very difficult to maintain without strong political authoritarianism, the suppression or control of labour unions, or the exploitation of foreign workers.

## Appendix

Table A

### COMPARATIVE STRUCTURE OF IMPORTS OF ADVANCED INDUSTRIALIZED COUNTRIES ACCORDING TO SKILLED LABOUR AND CAPITAL CONTENT

(As percentage of imports of all manufactured products)

	Imports from NICs <sup>a</sup> 1977	Imports from Eastern countries <sup>b</sup> 1977	Exchange among developed countries <sup>c</sup> 1977
<b>Skilled labour content: H</b>			
H very low	56	41	22
H low	14	28	32
H medium	15	11	21
H high	15	20	25
TOTAL	100	100	100
<b>Capital content: P</b>			
P very low	34	19	6
P low	34	29	36
P medium	9	7	8
P high	23	45	50
TOTAL	100	100	100
<b>Combination of the two criteria:</b>			
(1) H and P high	5	14	11
(2) H high, P low or medium	10	5	14
(3) H medium, P high	5	5	9
(4) H medium, P low or medium	10	6	31
(5) H low or very low, P high	12	26	12
(6) H low, P low or medium	5	7	6
(7) H very low, P low or medium	19	19	11
(8) H and P very low	24	18	6
TOTAL	100	100	100

Source: Commission of the European Communities, *Evolution des structures sectorielles*, op. cit., p. 41.

<sup>a</sup>Spain, Portugal, Greece, Turkey, Yugoslavia, Hong Kong, Taiwan, Singapore, Korea, Philippines, Malaysia, Brazil, Mexico, Venezuela, Argentina, Chile.

<sup>b</sup>USSR, Poland, Hungary, Romania, Czechoslovakia, German Democratic Republic.

<sup>c</sup>OECD countries except Spain, Portugal, Greece, Turkey and Yugoslavia.

Table B

PRODUCTIVITY, NOMINAL WAGES AND WAGE COSTS PER UNIT PRODUCED  
IN THE STEEL INDUSTRY  
(United States = 100)

	Labour required per unit produced	Nominal wage per employee	Wage costs per unit of production
Brazil	447	10	45
United Kingdom	262	38	99

Source: United Nations, *Yearbook of Industrial Statistics, 1975*, New York, 1977; International Labour Organisation, *Yearbook of Labour Statistics*, Geneva, 1977; United Nations, *Monthly Bulletin of Statistics*; Commodities Research Unit Ltd., *Study on the degree and scope for increased processing of primary commodities in developing countries, prepared for UNCTAD*, New York, September 1975.

Table C

AVERAGE WAGE PER EMPLOYEE  
(Manufacturing = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metallurgy	Total manufac- tures
Developing countries <sup>a</sup>	88.0	144.9	157.0	129.0	100.0
Developed countries <sup>a</sup>	70.3	123.6	113.9	101.7	100.0
Developed countries except Japan	73.2	116.9	111.2	101.5	100.0
United States	71.0	128.1	112.2	102.0	100.0

Source: United Nations, *Yearbook of Industrial Statistics, 1975*, New York, 1977; International Labour Organization, *Yearbook of Labour Statistics, 1977*; Geneva, 1978; United Nations, *Monthly Bulletin of Statistics*, New York.

<sup>a</sup>These countries are listed in footnote 26.

Table D

DISTRIBUTION OF LABOUR IN THE MANUFACTURING SECTOR, AND LABOUR  
EMPLOYED IN THE MANUFACTURING SECTOR AS A PERCENTAGE  
OF THE ENTIRE EMPLOYED ACTIVE POPULATION  
(Percentages)

	Textiles	Iron and steel	Non- ferrous metals	Metal- lurgy	Total manufac- tures	Manufac- tures Active popula- tion
Developing countries <sup>a</sup>	21.2	6.8	3.4	6.5	100.0	3.9
Developed countries <sup>a</sup>	7.0	5.4	1.5	5.0	100.0	22.3
Developed countries except Japan	6.1	5.7	1.6	8.1	100.0	24.3
United States	6.3	4.5	1.6	8.2	100.0	22.3

Source: Same as for table C.

<sup>a</sup>These countries are listed in footnote 26.

Table E  
SHARE OF WAGES IN VALUE ADDED  
(Percentages)

	Textiles	Iron and steel	Non-ferrous metals	Metallurgy	Total manufactures
Developing countries <sup>a</sup>	26.3	23.2	22.3	26.6	20.8
Developed countries <sup>a</sup>	45.8	44.9	38.0	46.4	41.6
Developed countries except Japan	36.0	29.0	26.7	38.4	34.0
United States	50.0	53.0	43.0	45.2	44.0

Source: Same as for table C.

<sup>a</sup>These countries are listed in footnote 26.

Table F  
WAGES IN DEVELOPING AND DEVELOPED COUNTRIES,  
BY BRANCHES OF INDUSTRY <sup>a</sup>  
(United States = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metallurgy	Total manufactures
Developing countries <sup>b</sup>	21.3	9.7	23.0	20.0	17.3
Japan	45.5	29.1	41.0	44.4	44.3
Federal Republic of Germany	94.8	83.3	114.2	100.7	99.8

Source: Same as table C, plus I.B. Kravis, Z. Kennessy *et al.*, *A System of International Comparisons of Gross Product and Purchasing*, Johns Hopkins University Press, 1975.

<sup>a</sup>For method used, see footnote 29.

<sup>b</sup>For the list of countries, see footnote 26.

Table G  
COMPARISON OF WAGE COSTS PER UNIT PRODUCED<sup>a</sup>  
(United States = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metallurgy	Total manufactures
Developing countries <sup>b</sup>	58.8	37.3	34.4	53.9	39.3
Developed countries <sup>b</sup>	89.0	83.3	86.7	84.4	73.6
Japan	71.0	70.5	66.9	65.0	64.3

Source: Same as table C.

<sup>a</sup>The method of determination of productivity used is that described in the ILO study cited in footnote 31.

<sup>b</sup>For the list of countries, see footnote 26.

Table H  
 COMPARISON OF WAGE COSTS PER UNIT PRODUCED  
 (Manufacturing = 100)

	Textiles	Iron and steel	Non-ferrous metals	Metallurgy	Total manufactures
Developing countries <sup>a</sup>	106.2	121.5	98.4	140.3	100.0
Developed countries <sup>a</sup>	85.9	145.1	132.3	117.3	100.0
Japan	78.4	140.4	117.0	103.3	100.0
United States	71.0	128.1	112.4	102.2	100.0

Source: Same as table C.

<sup>a</sup>For the list of countries, see footnote 26.



## The industrialization debate in Latin America\*

Héctor Soza\*\*

The purpose of this essay is to contribute to the discussion of Latin American industrialization from the standpoint of manufacturing prospects and the long-term options which can be glimpsed within the framework of economic and social development objectives.

In order to accomplish this goal, we must first of all describe the terms in which industrialization is being discussed, since it is well known that the revision of the ideas which for decades inspired the industrial policy of most Latin American countries, together with the changes in world economic trends, are giving rise to positions or projections of undeniable importance for the future.

Next, it is necessary to define quite precisely the region's industrial profile, noting the various trends and situations in the different countries, since the future of industry will also be quite heterogeneous. It is also necessary to describe the basic common traits of Latin American industrialization, which are rooted in the region's history, prevailing political framework and location in the world and its ties—notably those of a cultural, political, economic and technological nature—with the developed Western economies, all of which helps to shape a development style reflecting those traits which together define an overall Latin American industrialization model transcending the heterogeneity mentioned above.

Finally, it is necessary to review the main schemes or scenarios behind the industrial debate, aside from prevailing trends, attempting to show the areas of common ground and divergence of the various positions and to collect useful elements for an evaluation in each case.

\*Except where otherwise indicated, the figures used to illustrate various concepts are from CEPAL, which draws its information from the official sources of the Latin American countries, or from United Nations publications when referring to other areas of the world. The author, however, takes full responsibility for their use, especially as some of them appear in works which have not yet been published or are being revised, and consequently have not been approved by the Secretariat.

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## I

### General terms of the debate

In discussing Latin American industrialization, one can easily succumb to either of two opposing temptations; one, to exalt manufacturing growth and the atmosphere of modernity, or industrial atmosphere, which it has created and which promises to lead to more advanced stages; and the other, to focus rather on the problems of this sector and those of a general nature which Latin American industrialization has not helped to solve, or which in some respects it has even accentuated. In most cases, however, efforts are made to keep both positions in perspective, since industry has helped to make the region's economic expansion possible and to incorporate the technological progress of the centres, as well as to make Latin American economic growth more self-sustaining and consequently to generate the ability to react to external economic turbulence.<sup>1</sup> We must add that there are some less widely held views, inspired by specific and sometimes opposing political ideologies, which for various reasons reject the entire previous industrial history, and others wherein criticism, especially on the part of Northern economists, holds up as examples Asian models oriented towards assembly industries, imports and re-exports based on the 'advantages' of low wages.

Whatever the focus of the discussion, the industrialization strategy *per se* does not appear to be judged unduly harshly or extensively, as may be seen from most intellectual opinions and the majority of official pronouncements at the technical and political levels in the countries of the region, as well as the positions of the governments in international forums where the subject is discussed, where they insistently stress the urgent need to co-operate for industrial development. This is the case despite the fact that industrialization is being questioned as a motor for development and that the industrial efforts of some countries are consequently being weakened through political changes towards conservative, and sometimes

<sup>1</sup> Enrique V. Iglesias, "Latin America and the external turbulence", in *CEPAL Review*, second half of 1976.

extreme, positions based, *inter alia*, on easy external indebtedness largely made possible by the new easy availability of financial flows from private sources, albeit on 'hard' terms.

This was perhaps inevitable in the light of international experience, wherein in general, and with some conspicuous and explicable exceptions, the quality of development and the per capita income level clearly have a positive relationship to the weight of industry in the economy and the degree of advancement of the manufacturing sector in such areas as its structure, technological level and competitiveness in more complex categories.

The validity of the industrialization thesis is implicitly in doubt, however, when 'open' economic policies aimed, *inter alia*, at attracting foreign competition are applied or discussed, because indiscriminate openness toward imports may or may not lead to industrialization in specific circumstances since, at least in its purest version, it has no preconceived objectives regarding economic structure, resource allocation tending to be based on comparative advantages and on free market forces.

Thus, in most cases industrialization is not directly threatened in conceptual and political discussions, at least according to what we know from the official statements of Latin American governments, including those which are moving the furthest towards extremely 'open' economic positions (Chile and Panama, for example). It is a completely different matter, however, as regards the industrial patterns or models, and even more so the economic policy and machinery, designed to achieve the objectives of development and industrialization. Here is where the most important socio-economic and political aspects come in, economic 'openness', for example, being an option diametrically opposed to that of 'de-linking', to the strategy of collective efforts within integration schemes, and to models aimed at meeting the population's basic needs, both in their paternalistic version and that linked to development, or even a new style. Whatever the case, it is easy to see the importance of the different political commitments entailed in the various positions. Similarly, it is obvious that such

options may have a strong and differing influence on industrial patterns, or simply require different roles from the manufacturing sector.

Thus, the industrial debate tends to fall within the sphere of various strategies covering all aspects of economic and social affairs and often quite contradictory political positions. It is consequently recognized, either explicitly or implicitly, that industrialization is not an end in itself, that it depends upon fundamental economic and socio-political options which industry reinforces rather than initiates, and that a specific industrial policy's room for manoeuvring within a given economic and socio-political framework is therefore subject to restrictions which can be fairly severe.<sup>2</sup>

At this point it is easy to confuse what may be called the industrialization model or pattern—defined by such aspects as the basis of its dynamism, the productive structure, technology, and foreign trade in manufactures—with the economic and social policy which nourishes the model or from which its essential traits stem, keeping in mind the influence of local conditions such as the size of the market and the availability of natural resources. This confusion is often expressed in the ambiguity of the term 'strategy': at times this applies to the model, at others to the economic and social policy, and sometimes to all of these things or to limited, specific aspects such as the technological or protectionist strategy.

As far as the industrialization model is concerned, what is kept in mind is frequently the industrial position reached in most of the developed countries, either individually or in blocs or groups (North America, EEC, EFTA, the centrally planned European economies, Japan), which have the highest levels of income and general well-being. This is especially the case when certain essential similarities are observed, despite differences in the political system.

The principal similarities to be seen are the high level of industrialization, the diversified and vertically linked industrial structure,

<sup>2</sup> These ideas are supported, for example, in United Nations, Committee for Development Planning, *Report on the Tenth Session, March/April 1974* (ECOSOC official records, 57th Session, Supplement No. 4).

the technological development efforts, the location in large national and/or international markets and the advanced manufacturing export patterns. Obviously there are differences, such as those connected with trade in manufactures: the great openness of the Western European economies, especially in their trade with each other, through intra-sectoral specialization schemes; the closed strategy of the group of centrally planned economies; and Japan's very marked barriers against manufactured imports.

Despite these discrepancies, the importance of the similarities between the industrial models of the developed economies and of the fact that these models have been implemented according to differing political, social and economic strategies is undeniable, but this does not conflict with the limitations affecting a specific industrial policy within a given framework, since the models were developed under different historical circumstances. Such circumstances include the backwardness of some countries with respect to industrialization and development which, depending upon the severity of the lag, has historically demanded deliberate, increasingly intensive efforts conditioned by fairly dissimilar cultural and value systems, as well as specific political positions compatible with the primary development objectives and with the goal, often implicit, of catching up with the more advanced economies and societies. It should be noted that among the basic explanations for the above-mentioned similarities are the characteristics of world technological progress, to which all-important reason is added the rivalry for power, especially among the major hegemonic powers.

Accordingly, recourse is often had to the solution of comparing Latin American results with the industrial characteristics of the developed economies, which become a sort of shining example in the long-term horizon. But those who discuss industrialization are increasingly leaning towards a search for *sui generis* methods, since the 'shining example' itself is now being reviewed for social and economic reasons, especially as a result of the upheaval within the developed capitalist economies after 1973-1974, when the energy problem

revealed significant structural problems, and since the enthusiastic efforts made to reproduce this example have run into stubborn difficulties. This search, which stems from the idea that an industrial theory should be formulated for the developing countries wherein the manufacturing sector might play a different role from that which it plays in the centres, often forms part of the discussion of development styles and, naturally, the consideration of the political commitments which would be inherent in significant changes in the prevailing trends.

With regard to styles, one frequently encounters the question of the extent to which they are really factors exogenous to industrialization, and consequently whether different manufacturing patterns can become the stimulus for differing development styles. Despite the foregoing statements about the economic and socio-political framework of industry, the subject is not unimportant, nor is the answer easy. For example, taken from a historical viewpoint it seems indubitable that technological innovation and the corresponding industrialization played a decisive role in shaping the consumer style of the advanced capitalist societies in accordance, naturally, with their patterns of accumulation. It is equally certain that industrialization in Latin America has played its part in significant economic and social transformations. Thus, it would not be correct to state that manufacturing development is totally without influence among the major variables which help to define a style.

Nevertheless, following the reasoning of Carlos Matus,<sup>3</sup> we must single out what he calls the 'dynamic conjuncture', a concept which he explains using precisely the example of the start of Latin American industrialization on the basis of domestic markets, stating that "it can be a force unleashed from abroad which reveals prospects for dynamic industrial growth, without any social group... having formulated them previously as a project...". A different matter is his concept of 'constructed policy', which is

<sup>3</sup> Carlos Matus, *Estrategia y plan*, Editorial Universitaria, Santiago, Chile/Siglo XXI Editores, Mexico City, Santiago, Chile, 1972.

that of formulations based on "ideas which in turn are based on a specific theory or model". Thus, it is obvious that *ex post* analysis of industrialization models and development styles is by nature entirely distinct from that which may be done *ex ante*.

In both cases, however, it must be recognized that outstanding political ingredients or definitions are involved. This is why in considering Latin American industrialization one may easily note that the political reactions to the crisis of 1930 varied throughout the countries of the region, which helps to explain why some tended to industrialize and others did not, until the industrialization strategy became general after the Second World War, and especially during the 1950s, in a sequence which gradually gave political legitimacy to the fundamental significance of industrialization as a dynamic factor and one of the ways of incorporating world technological progress.<sup>4</sup>

These facts are mentioned simply to emphasize that even the dynamic conjuncture, which according to Matus "imposes itself upon men", required certain socio-political bases and an ideological and intellectual maturation process in order to express itself in industrial realities. This process, which gradually encompassed the entire region, sought to improve the industrialization process by introducing a greater degree of rationality, integration agreements to give it sufficient scope, and policies to facilitate exports. It must also be acknowledged that the opportunities for real expression were supported by previous situations, such as the chance which the industrialization process itself gave some countries to reap profit from the world economic boom which ended in 1973-1974, and which largely supported the dynamic conjuncture that led to sharp increases in manufactured exports, in addition to the position won, in line with the predominant economic and socio-political schemes, by the for-

eign transnational corporations, which are noteworthy among agents for such exports, in contrast to what took place in Japan, for example.

The policy constructed on the basis of ideas is very different, as may be seen by looking at international and Latin American experience, wherein the sharper the change, the more drastic the political commitment required. This is virtually self-evident, convincing and outstanding examples in the regional framework being such dissimilar cases as Cuba and Chile, or Nicaragua and Uruguay.

For these reasons, there are serious doubts as to whether industry itself can be the stimulus for very different development styles, although it must be acknowledged that the industrial events give rise to subsequent situations of change which may tend to modify the economic and social structures, without necessarily implying trends toward profound alterations in style such as those which are being suggested as regards the basic needs of the population or the importance of preserving the environment and saving energy.

In this connexion it must be kept in mind that the concept of style is frequently used vaguely and very esoterically with respect to the ideological and political support bases. For this reason, in an illuminating article on the unified approach to development, Jorge Graciarena explains that "... politics reappears... as a central component of any conception of styles of development. The values may vary, but styles must distinguish and decide as regards how much, how, what and for whom, since these are the alternatives normally facing a development process and the choice rests with the political order. The function of choosing between them is institutionalized, and it is the business of the political apparatus, more than of any other institutional order, to choose the direction of development and promote progress along the chosen path"<sup>5</sup>.

When the matter is put in these terms, analyses of the Latin American industrialization process and of its prospects and options may be

<sup>4</sup> For over 30 years, CEPAL has argued extensively about this significance of industrialization. In the *Economic Survey of Latin America, 1949*, it already emphasized the subject strongly, according to paragraphs later reproduced in *Desarrollo, industrialización y comercio exterior*, in *Cuadernos de la CEPAL*, No. 13, Santiago, Chile, 1977.

<sup>5</sup> Jorge Graciarena, "Power and development styles", in *CEPAL Review*, first half of 1976, p. 191.

placed in the field of concrete socio-political realities and not, as often occurs, in an esoteric framework which consists of the belief that at any given moment industrial policy was or will be given numerous options. External events which have been so closely linked with industrial policy over the last decades and which will probably have a profound impact in the future or must be included when considering optional strategies must also be considered.

Furthermore, we must recognize that retrospective analysis is valid to the extent that it makes a critical analysis of past experience in its projections for the future. At this point, perhaps we should explain that this analysis usually takes place within the historical framework of an industrial strategy taking the form of a trajectory aimed at establishing support bases for other stages or methods put forward with a view to and in accordance with superior social objectives. Thus, judgement of the suitability of forms of industrialization is directed towards prospective long-term trends.

In connexion with these approaches, it may be worthwhile to recall that the first stages of the industrialization of the developed Western capitalist economies were by no means easy, nor were they reached without huge social sacrifices. This also occurred in the socialist economies of Europe after the Second World War, until they reached an industrial standing and level of income similar to those in Western Europe, and in Japan, when its industrial recovery began, *inter alia*, with modest steps in the export of manufactures. The assembly for re-export model of some Asian countries with cheap labour might be seen in similar terms. But all this in no way means that Latin America must necessarily repeat these experiences, since the region has already made fair progress in industry and is able to use to its advantage the technological progress of the developed countries (as it is doing to a large extent, although not always in suitable conditions); appropriate co-operation can be expected from the developed countries, and in practice is being sought in an increasingly integrated manner, without prejudice to the overwhelming importance of Latin America's own efforts.

With respect to the chronological aspect,

it may be wondered whether Latin America really had an option for developing its industry other than that which emerged, so to speak, naturally, in view of its internal political restrictions as well as those inherent in its external ties and in the functioning of the world economy, especially in the developed western area, to say nothing of the problems posed by the fact that it began its industrialization late in a context of underdeveloped economies with limited infrastructural facilities and entrepreneurial, scientific and technical vocations, among many other factors.

In so far as the answer is no, any evaluation of the Latin American industrialization model will mean confronting it with a retrospective utopia. Analysis is obviously useful, however, if it focusses on projections for the future, the principal development problems, and the economic and social objectives to which industrialization may contribute.

The domestic and external economic framework, as well as the socio-political context of industrialization, must still be kept in mind, however. It has been said that this means that industry cannot be considered as having a very high degree of autonomy, although one can easily find areas where specific industrial policy actions have had a noteworthy impact, as demonstrated by the industrial history of the countries of the region. To a large extent, however, these very actions are determined by economic and political factors. For example, in the large as well as most of the medium-sized countries of the region, the development of many basic industries was associated with direct actions by the public sector within the framework of economic and political conceptions which give the State a protagonistic role and have also led to extensive nationalization and to regulations reserving basic, strategic areas for the State. Certainly, these positions have been revised in some countries, but it is equally certain that in others the real changes have not been too drastic, since the conditions which justified direct State intervention remain.

Just the opposite has taken place in the small countries, where only in exceptional cases has a basic industry developed. In them, the economic-political option which, through integration, would have made an industrial

model similar to that of the larger countries viable did not materialize, as may be easily seen from the ideological assumptions which gave rise to the integration agreements.

These comments on the general terms of the Latin American industrial debate, conceptually placed within its historical, economic and socio-political context, are inadequate, however, unless some of the principal approaches, schemes or scenarios wherein this discussion is usually placed are specified or thoroughly analysed.

Firstly, the principal traits of the Latin American industrial profile and its trends must be defined, since the discussion is based on a critical analysis of this background and seeks new perspectives largely in relation to it.

Next, we must examine the normative horizon of industry in the mature economies, since the debate often compares the process of Latin American industrialization with that of those economies, and many of the analyses support the imitative nature of this process, although that imitation is certainly incomplete in some important respects. We must also define the Latin American position, wherein trends toward abandoning the hypothetical norm may be noted.

We must then touch upon the industrial significance of the trends towards restructuring the world economy and their implications for the revival of manufacturing activities and, consequently, for the international division of labour, since it is contended that such trends

are very marked and viewpoints trusting or mistrusting in their benefits for the region abound in the debate.

It also seems necessary to analyse the ideas for Latin America discussed in connexion with the formulation of the United Nations International Development Strategy for the 1980s: ideas which draw upon the values of the normative horizon in the context of co-operation and the New International Economic Order, and which figure prominently in the discussions in international forums.

It is also useful to consider the surge towards economic openness which is tending to emerge in some countries because, although it does not correspond to specific industrial positions, openness does have an impact on the manufacturing sector, and in the Latin American debate it holds a predominant position in certain contexts and countries.

Finally, attention must be paid to the proposals for outward-oriented industrial strategies which contrast notably with the other positions on external relationships and, moreover, specifically pursue and generally give high priority to urgent social objectives.

Actually, isolating these six approaches is in many cases somewhat artificial, since they often contain common points or overlapping or coinciding areas. To some extent, consequently, the distinction may be viewed as a methodological device designed to clarify the options or positions which are most often discussed, together with the commitments they imply.

## II

### The industrial profile and trends

#### 1. *Industrial dynamism*

Over the past thirty years, Latin American industry has expanded at an average rate of 6.7% per year, whereas world industry did so at a rate of only 5.9% annually. Thus, the region's industrial weight in the world increased from less than 4% to close to 5%. More noteworthy, however, is the fact that the region's manufacturing weight among the Western market economies climbed from 4.7% to 8.4% as a result of Latin

America's relatively rapid industrial growth, North America's slow growth (3.6% annually), and the slack pace of Western Europe's growth (5.2% annually).

This fact deserves to be emphasized, since it indicates the industrialization effort involved, the scale of which can be properly appreciated if it is kept in mind that Latin America's external links are essentially with these developed market economies of moder-

ate economic expansion. Thus, the region's total gross domestic product climbed at a rate of 5.5% per year, while North America's did so at 3.6% and Western Europe's at a rate of 4.3% annually.

It may accordingly be concluded that there has been a certain autonomous dynamism in Latin American development which is expressed even in the muted effects on the region's economy of the recession undergone by the developed market countries after 1973-1974,<sup>6</sup> according to most of the analyses, this is all linked with the industrial progress of recent decades, which provided impetus for growth and an increased capacity to resist external vicissitudes, in addition to tending to mitigate the deterioration of the primary commodity export situation.

The industrial dynamism of Latin America can also be observed by comparing the rates of expansion of manufacturing versus overall economic activity, the ratio of 1.22 (industrialization process) being somewhat higher than the world average (1.20) over the past three decades and significantly higher than the rate for the developed market economies as a whole (1.11), although it was lower than that of the socialist countries (1.40) and Japan (1.48), whose strategies were intensively industrialist within rapid economic expansion schemes.

These figures on the region mask large differences in dynamism among the countries making it up, however. Eight countries equalled or exceeded the average economic expansion rate (Brazil, Mexico, Venezuela, Costa Rica, Nicaragua, Ecuador, Panama and the Dominican Republic); nine exceeded the overall industrial growth rate (the same countries mentioned above plus Honduras), and only six countries (Argentina, Chile, Uruguay, Bolivia, Haiti and Paraguay) had slow

rates of industrial expansion when compared with the world average (5.9%). These six countries were also those which recorded some of the lowest economic growth rates. Despite these exceptions, however, one may still hold the view that relatively vigorous industrial dynamism was general throughout the region.<sup>7</sup> All the same, if Brazil and Mexico are excluded from the calculations, the average rate of industrial expansion drops from 6.7% to no more than 5.0% annually, principally due to the slow economic and industrial growth of Argentina, whose weight was significant at mid-century (31% in 1950, but only 16.6% in 1979).

These facts not only illustrate the differences in dynamism within the region but also highlight the fact that, generally, the countries with the greatest overall economic expansion had the highest industrial growth indexes; this corresponds to international experience, to which there have been very few exceptions, and those have generally been for very specific reasons. The reasons for this and for the fact that economic growth tends to coincide with more rapid industrial expansion (industrialization process) are well known in development theory, and this is not the place to refer to them. It is more useful to continue discussing the problem of heterogeneity, which goes far beyond the dynamism problem, and whose projections will be felt in the future.

Obviously, industrial heterogeneity within the region has been noticeable from very early on, so that the 1930 crisis found the countries in fairly varied positions. There is no doubt that the largest and some medium-sized countries were more favourably placed for pursuing decisive industrialization processes and dealing with the unfavourable conditions in the world economy and international trade affecting their primary export products and the need to recover, maintain or increase the population's levels of employment and income. In general terms, the countries with the easiest import possibilities, the narrowest markets, or political positions incompatible with industrialization were most backward in

<sup>6</sup> One indicator of this muted effect is the overall performance of industry in the developed market economies since 1973 in comparison with that of Latin America. In the former, manufacturing output dropped in 1974 and especially in 1975, and the average rate of industrial expansion from 1973 to the end of the decade was 1.1% annually, whereas in Latin America on the whole, output never dropped, and the average rate of industrial growth during the period was 4.8% per year. Manufacturing output decreased noticeably only in Argentina and Chile, but this was primarily for domestic political and economic reasons.

<sup>7</sup> Overall industrial dynamism is best measured by the simple arithmetic mean of average rates of manufacturing growth in the countries, which comes to 6.1% annually.

the development of manufacturing, which penetrated the entire region as a strategy only after the Second World War.

Around 1950, manufacturing's weight in the Latin America economy was 20% (currently 26%), but only Argentina, Brazil, Chile and Uruguay exceeded this figure, while Mexico was on the edge of it, the other countries being far behind in their industrial development. If the countries are categorized as large, medium-sized and small, the differing average industrial situations of each group emerge clearly. For that period, however, we cannot say that there was a marked correspondence between size of market, degree of industrialization and level of income. Only the small countries, with their modest levels of income and low degrees of industrialization, came close to demonstrating this association. In the case of the large and medium-sized countries the situation was more complicated, and consequently the averages reveal little. Other elements would have to be introduced into the analysis, such as the availability and degree of exploitation of natural resources, while it must also be taken into account that at that stage of industrial development the size of the market was perhaps not an unduly severe limitation, since a large portion of the manufacturing output fell into the categories of non-durable consumer goods, which are sometimes called traditional, and where the requirements in terms of scale, technologies and capital were frequently smaller. In other categories, little progress had been made and, certainly, activities of little complexity were involved.

Subsequently, the influence of the size of the market begins to emerge more clearly, since many countries entered more advanced stages of manufacturing development, with industries requiring broader markets and bigger technological and capital bases. This influence is partially reflected by the fact that the large countries increased their degree of industrialization by 32% from 1950 to 1978, whereas the medium-sized ones did so only by 18%. It was the small countries, however, which made the relatively greatest industrial effort, since they increased their degree of industrialization by 50%, although of course they began with an extremely small manufac-

turing sector and passed through the simplest stages of industrialization. Nevertheless, on the whole they failed to match the industrial indexes which had been recorded by the large countries in 1950, although they slightly surpassed those registered by the medium-sized countries at that time.

As stated earlier, the dynamism with which these changes took place differs greatly among the countries. For example, the large countries tended to increase their industrial weight within the region due to the rapid expansion of Brazil and, to a lesser extent, Mexico, and despite the fact that Argentina, which sharply increased its degree of industrialization, did so within a context of only slow economic growth. The medium-sized countries (especially Chile and Uruguay) lost much ground, although Peru and especially Venezuela were among those whose expansion was relatively rapid. Industry in the small countries more or less maintained its weight in the region, and in Costa Rica, Ecuador, Nicaragua and Panama industry grew faster than the Latin American average.

Notwithstanding the foregoing, the general lines of the differences between the industrial patterns of the large, medium-sized and small countries were broadly maintained. Around 1950, the degree of industrialization of the medium-sized countries as a whole (17%) was 77% of that of the large countries (22%), and that of the small countries was 55% thereof (12%). In 1978, the degree of industrialization of the medium-sized countries (20%) had dropped to 69% of that of the large countries (29%), and that of the small countries had climbed to 62% of the same indicator (18%), thus coming fairly close to the figure for the medium-sized countries.

It might be said that the scanty industrialization of the small countries at the start of the period under consideration made their industrial path easier (in addition to the dynamic effect of the Central American Common Market during the 1960s), since it involved the development of manufacturing output in traditional activities and others of less complexity and smaller requirements with respect to markets, technology and capital. The medium-

sized countries encountered harsher obstacles, since during this period they had to face the challenge of undertaking more advanced industrial activities, the difficulties in developing which were more easily overcome by countries with larger markets.

Finally, it is worth stressing that when the overall industrial position reached by each country individually is considered, the general correlation between level of income and degree of industrialization becomes somewhat blurred. Although the analysis is made in approximate terms, one notes that this is basically due to significant exceptions caused by extremely specific circumstances. For example, consideration of the countries at the highest regional level in terms of per capita product at the end of the past decade (around US\$ 1 500 at 1970 prices) reveals that Argentina required a high degree of industrialization (33%) to attain this, whereas Venezuela needed one of the lowest in Latin America (17%); this, however, is obviously and essentially due to the fact that it is an important petroleum-producing country. At the second-highest level (around US\$ 1 000), Mexico, Chile, Uruguay and Costa Rica needed to record an intermediate degree of industrialization (between 23% and 29%), whereas Panama needed only a fairly low degree (14%) due to its geographical situation and the Canal, which gives it a marked trend towards the services sector. At the lower levels, the most noteworthy atypical cases are Brazil (US\$ 850) and Peru (US\$ 600), in spite of their relatively high degrees of industrialization (30% and 25%, respectively). The explanation for this must be sought in the fact that they are among the countries with the most pronounced internal socio-economic inequities in the region, which implies that much of the population is isolated from development and a great deal of employment is in activities with very low productivity, in contrast to the relatively high productivity of factory-type manufacturing, which operates mainly for the higher social strata.

## 2. Structural change

The value of using the degree of industrialization, defined simply as the weight of manufac-

turing activities in the economy, as an indicator of the industrial situation or trends is extremely limited. Consequently, other considerations of prime importance must enter into any analysis of the Latin American industrial model and the region's heterogeneity in this respect, or into any comparison with the industrial patterns of the mature economies.

One of the most important aspects which helps to define industrial progress is the productive structure, whose modifications as a result of development tend to follow the same pattern throughout the world. The most characteristic and prevalent modification is the decreased weight of industries producing non-durable consumer goods (slow-growing, traditional) and the extraordinary dynamism of the chemical and metal products and machinery industries principally producing intermediate goods, consumer durables and capital goods. This is what took place in the developed economies and also, of course, in the Latin American ones. In the former, the causes generally lie in technological progress and changes in the composition of demand tending towards greater sophistication. In Latin America, the phenomenon has been slightly different, since in addition to the incorporation of technological progress and the behaviour of demand, the policies designed to perfect the manufacturing output structure have also been decisive. One notes a decline in the weight of non-durable consumer goods industries in developed areas when the basic needs of the population have been largely met —needs which, among other goods and services, involve many items from the manufacturing group mentioned above. In Latin America, however, with few exceptions, the situation is different, causing an apparent paradox.

A large portion of the population remains only partially or marginally involved in the consumption of manufactures, in accordance with the long-term trends and structural characteristics of Latin American development, which are that most of the demand for manufactures comes from certain levels of society where basic needs are best met. Thus, the demand for non-durable consumer goods from traditional industries amounts to a sort of vegetative growth, so that it is the most modern

industries which contribute most to industrial dynamism. But this fact is also connected, as already noted, with technological progress, the transformation of the structure of demand, and the policy for the structural improvement of production, all within the framework of the social restrictions mentioned. Thus, the schemes for change in the industrial structure become coherent with the form or style followed by Latin American development. Aníbal Pinto<sup>8</sup> is referring to this when he notes that in Latin America such structural changes are connected with the concentration of consumption, especially of durable goods, many of which are produced by the rapidly-expanding metal products and machinery industries, and explains that "the more dynamic elements of the productive apparatus are interrelated and depend mainly, and sometimes entirely, on the demand of the (social) groups situated at the peak of the distributive structure", adding that "given the (relatively low) level of average income in the region and the countries, if the present style of development is to work and progress, then income and expenditure must be concentrated in those strata, so as to sustain and increase demand for the favoured goods and services".

It has been pointed out that the structural changes in industry have taken place in Latin America along international lines and those of the developed economies. Between the mid-1950s and the end of the 1970s, the weight of traditional industries dropped from 56% to 34% while that of the metal products and machinery industry climbed from 12% to 26%. Despite this very marked structural change, however, the situation is still far from equal to that of the mature economies where, again towards the end of the past decade, traditional industries represented around 20% or 25% of manufacturing output and metal products and machinery, around 40% or 50%.

The crux of the matter, of course, is that Latin American industry is in transition towards advanced stages; but there is also the fact that the technologically dependent style

followed in the region implies lags in the output of products incorporating the technological innovations of the centres, especially in the intermediate and capital goods branches. This means that the capacity for dynamic growth is limited by imperfections in the chain of production, which of course are particularly reflected in foreign trade, especially in the heavy imports of intermediate and capital goods.

The changes in the manufacturing structure have been noteworthy, however, so that industry today looks very different from that of 30 years ago, progress having been made towards the development of extremely modern lines of production. At the same time, however, the difference in the situations of the countries has increased and is manifested in many aspects which go far beyond the enormous disparities in industrial size. Although in nearly all the countries of the region the structural changes were in the same direction, it was only in the large countries that the metal products and machinery industries acquired much weight (28%) and a major degree of national integration. In the medium-sized countries, this weight is low (17%), and in the small countries, it is practically insignificant (9%), conforming to the general lack of vertical integration in production processes, especially in the technologically most advanced branches. In the large countries, especially Argentina and Brazil, a large capital goods industry developed, and in the three biggest countries (Argentina, Brazil and Mexico) one finds nearly the entire spectrum of basic industries. The medium-sized countries have been able to produce few capital goods and have significant gaps in basic branches, while capital goods are hardly produced at all in the small countries, and basic industries are found only exceptionally.

In these respects, the size of the market has been decisive, as has often been the availability of natural resources, in terms of advantages for basic development; to this we may add the fact that greater economic scale provides the essential amounts of capital and attracts the interest of transnational corporations, which have tended to settle most heavily in the spear-head metal products and machinery industries.

<sup>8</sup>Aníbal Pinto, "Styles of development in Latin America", *CEPAL Review*, first half of 1976.

It may be concluded, accordingly, that the industrial profiles of the various types of countries are only partially shaped by the fact that they are at different stages of industrial development, since they have generated dissimilar models according to the greater or lesser severity of their local restrictions. We know that attempts have been made to overcome these restrictions through integration agreements which, *inter alia* involve more intensive intra-sectoral specialization the smaller the country, but which simultaneously include the idea of advanced industrial development for all the members.

### 3. *External relations*

For historical and geographical reasons (with the exception of Cuba in the past two decades), ties with the developed Western market economies, which can be defined at the cultural, political, economic, financial, commercial, entrepreneurial, scientific and technological levels, have predominated in Latin America's external links. These long-standing and incontrovertibly strong ties, supported by the political patterns prevailing within the region, have obviously had a decisive influence on the Latin American development style, and consequently on its forms of industrialization.

In analysing this vertical connexion, the concept of interdependence is usually questioned, and Latin America's form of insertion in the West is often defined as a relationship of dependency: a concept which Raúl Prebisch<sup>9</sup> expands when he characterizes peripheral development as "a process of irradiation from the centres of techniques, consumption patterns and other cultural manifestations, ideas, ideologies and institutions".

In this context, the influence of North America and Western Europe upon most Latin American countries is quite invincible and operates in varying ways with respect to industry, among which are especially salient the imitative forms of consumption, especially on the part of the middle- and high-income strata of Latin American societies; the provision of manufactures, which mainly come from those de-

veloped Western economies; the protectionism of the centres against manufactured exports from the region; the growing presence of transnational corporations in local manufacturing activities; and technological patterns relating to product characteristics and production processes which are also incorporated predominantly from these centres.

There is no doubt that in certain respects these forms of external connexion have been changing, and that sometimes they become indirect with respect to Western centres. This is the case of the increased ties with Japan, for example, when the latter emerged as an industrial power and competitor in the markets of the centres themselves and penetrated those of Latin America on the basis, *inter alia*, of intensive technological development, while its large corporations entered the world of the transnationals and set up branches in developing countries. It must be kept in mind, however, that Japan is located within the system of the developed market economies and that the sources of its advanced technological development reach back to the West. It is also true that intra-regional ties in Latin America have expanded, but 90% of its manufactured imports still come from the developed market economies, while a significant portion of the growing intra-Latin American trade in manufactures is carried out by foreign transnational corporations, to say nothing of their technological intermediation role: a fact which is also often related to technical co-operation among countries of the region or the regional transnationalization of local national and foreign corporations. This intermediary position is, above all, inherent in the semi-industrialized Latin American countries, as it is in some Asian countries which have achieved the same standing. It may be stated therefore that the essential characteristics of Latin America's external ties persist, as do the substantive aspects of their influence on the course of regional industrialization.

At all events, the manners in which the centres exert their influence with respect to consumption, the supply of manufactures, transnational corporations and technological patterns are strongly interrelated and in some way depend upon each other. This is why the

<sup>9</sup>Raúl Prebisch, "Towards a theory of change", in *CEPAL Review*, No. 10, April 1980.

process of Latin American industrialization has been characterized by rapid advances in the horizontal diversification of manufacturing output, especially of consumer goods, and insufficient progress in vertical diversification, a scheme which is usually called disparate industrial growth and which has entailed a rapid increase in the need for imports of intermediate and capital goods with the technology of the centres, in addition to a significant and growing negative balance between exports and imports of manufactures, in most cases not offset by external sales of primary products. Consequently, an asymmetric trade scheme is preserved within a framework of intersectoral specialization. From a broad point of view one notes that this situation is tending to change, but the process is slow and the protectionism of the centres does not help in it. Thus, Latin America remains one of the regions most 'open' to manufactured imports and most 'closed' as regards the corresponding exports. This basic fact persists in the long term, and in general affects all the countries of the region, even the most industrialized, although the larger ones have made more progress in securing greater national integration in many industries and in producing capital goods, and thus import relatively fewer manufactured goods.

If this is the case, and the respective imbalances arise at differing levels depending on the country or at different industrial stages in time, the reason must lie much deeper than a country's simple position within successive transitional situations or its deliberate exercise of specific production policies which lead to this scheme. The underlying explanations must be sought, for example, in the virtually unrestricted technological dependence and in the rapid innovations taking place in the centres, along with the socio-political importance of incorporating them into consumption and production, which is linked with the forms of capitalist accumulation that are transplanted into the region; all of this conforms to the predominance of political positions whose proponents are reluctant to correct the unjust distribution of income, but responsive to the urgent desire of the middle and upper classes to profit from the consumption patterns of advanced societies with high average income levels, a situation

which makes them inclined towards dependency and is hardly favourable to the indigenous and collective efforts which have largely characterized the industrialization of the developed economies. This could explain, *inter alia*, at least in part, the limited success of Latin American scientific and technological policies, which for the past two decades the countries have sought to organize in institutional terms, as well as the weakness or crisis in the integration processes in connexion with which the political, social and economic heterogeneity of the countries, as well as the conflicts and disagreements between some of them and the political idiosyncracies which make them reluctant to cede national sovereignty, must also be considered.

With respect to production, the internalization of technological progress occurs gradually, following a process which often begins with imports of intermediate goods, components and equipment, and may eventually penetrate at various levels, especially in the countries with the largest markets; but sometimes, simultaneously or later, other innovations appear in the same or other branches, so that the basic situation persists, although at higher levels.

The dynamism of production frequently appears to be stimulated more by competition to create demand (publicity, financing) or new or apparently new products than by competition in costs and prices, and transnational corporations with high import coefficients and low export coefficients are often guilty of this, despite some perceptible and often noteworthy progress. In most cases, this dynamism is complemented by a sort of association between the State as the supporter of the development style and the corporations, which in turn become part of an oligopolistic network of national and international groups or corporations involved in other activities, including the financial apparatus. In this way, a system is shaped which helps the firm establishment of what Cardoso and Faletto call "industrial economies in dependent societies"<sup>10</sup> within

<sup>10</sup>F.H. Cardoso and Enzo Faletto, *Dependencia y desarrollo en América Latina*, Mexico City, Siglo XXI Editores, 1977.

the framework of political alliances inclined towards dependency.

The notion of the dependent society may be extended to other factors intimately connected with the history of Latin American manufacturing development and which, together with the foreign trade problems, explain why the Latin American industrial debate is being increasingly directed at the consideration of foreign relations and international co-operation, especially 'vertical' co-operation from the centres (financing, technology transfers, codes of conduct for transnational corporations, access to markets, etc.), and less so towards domestic efforts, although it must be acknowledged that the world economy has been moving towards growing interdependency and internationalization.

This can be explained by the fact that some of the principal industrial stimuli have originated abroad, and are among the most outstanding historical landmarks of Latin American industrialization: (a) the first and most noteworthy corresponds, as is repeated in all industrial analyses, to the 1930 crisis which in many countries of the region generated significant industrial stimuli aimed at objectives such as domestic supply, which were later combined with those occasioned by the Second World War; (b) secondly, there was a tendency towards the general spread throughout the region—especially in the 1950s, when unfavourable external conditions had to be faced after the Korean War—of industrialization strategies which, even in the large and some medium-sized countries, legitimized the State's entrepreneurial activities in basic branches, which took place earlier in some but in other was postponed until recent times; (c) next, integrationist movements emerged whose ideological bases included the goal of giving bigger scale and competitiveness to industry in order to proceed to more advanced positions; (d) later, and especially from the 1960s onwards, one notes the growing presence of transnational corporations which, in oligopolistic spheres, assumed the leadership in various manufacturing branches (especially the 'spearhead' branches, which were the most dynamic and had the greatest technolog-

ical content), penetrating the Latin American industrialization style or model without changing its essence; (e) almost simultaneously, after 1963-1964, there was rapid growth of manufactured exports, supported by the previous industrialization process, integration agreements, promotion policies, the general rise in the prices of industrial products in international trade and the world economic boom; (f) finally, there was the impact of the increase in petroleum prices and of the crisis which hit the developed market economies after 1973-1974: an impact which, as stated earlier, was softened by the industrial capacity generated over past decades, aided by the greater facilities in respect of external indebtedness, all of which contributed to the fact that industrial imports continued to grow, and even grew at higher rates, although the respective exports sharply decreased their growth rates.

All of these landmarks, and perhaps others not included in this brief summary, are of real importance and helped to form what is today the industrial sector of the region. Predominant among them are the effects of external circumstances, either direct or indirect; however, it must be kept in mind that the legitimization and intellectual and political maturation of the industrialization strategy made a decisive contribution in this regard. The fact that the region's industrial outlook is currently very different from that of thirty years ago, however, does not mean that the important factors mentioned above have helped to transform the basic tendencies of the Latin American model. Moreover, it must be stressed that the relevant impacts had varying implications, depending on the countries concerned, as regards industrial dynamism, manufacturing structure and other aspects, among which we now wish to highlight foreign trade in manufactured goods.

#### *4. Foreign trade in manufactures*

The dissimilarity of the countries (natural resources, geographical position, markets, etc.), and consequently of their industrialization models, as well as, sometimes, the various stages they are at, are clearly reflected in the various patterns of foreign trade in manufactures, taking account of the relevant policies.

Thus, the more advanced stage of industrialization of the three large countries, which are usually classed among the semi-industrialized peripheral countries, is reflected in the fact that on the whole they have a larger and growing proportion of manufactures in the value of merchandise exports. Towards the end of the 1970s, this proportion amounted to 33%, while for the medium-sized countries it was barely 8%, or 17% if Venezuela is excluded. Among the small countries, those of the CACM are worthy of note, for their external sales of industrial products taken altogether equalled around 30% of total merchandise exports until around 1970, when reciprocal trade began to weaken as a result of the well-known problems among the countries, the Common Market entered a stage of crisis and the economic dynamism of the group declined. Finally, for the other small countries, the figure in question did not exceed 11%.

But industrial progress is perhaps most clearly reflected in the *structure* of manufactured exports, since differing primary export facilities affect the above-mentioned figures, as in the obvious case of Venezuelan oil. Naturally, the most outstanding is the weight of metal products and machinery, which exceeds 35% for the three large countries together, whereas it came to barely 14% in the medium-sized countries, 11% in the CACM countries (thanks to reciprocal trade), and less than 1% in the other small countries. The figures thus highlight a clear correlation with the relevant industrial structures, which are most advanced in the large countries, although not even the latter attained the manufactured export composition of the mature economies, where the relative weight of metal products and machinery is over 50% or 60% of total external sales of industrial products.

This fact is obvious, since if the metal products and machinery industry does not develop, then products from this branch can hardly be exported, and trade in these products is sharply influenced by the technological progress they incorporate, which is generated fundamentally in the mature economies. But stressing the association between the production structure and the pattern of manufactured exports is not a trivial matter, since the greatest

dynamism in international trade is in the metal products and machinery branch, a fact which helps explain why the large Latin American countries increased their weight in the manufactured exports of the region from 58% in 1965 to 70% in 1977, and to over 90% of all Latin American exports of metal products, machinery, and transport, professional and scientific equipment.

The situation is different in so far as *imports* of manufactures are concerned, since in all of the groups of countries their weight in total merchandise is around 70% or more, in some cases coming close to 80% (medium-sized countries, CACM), which corresponds to the well-known foreign trade imbalance.

With regard to the structure of industrial imports the problem is also different, since in all the groups of countries the metal products and machinery branch is prominently represented (over 40%, and even up to nearly 60%), largely as a result of the need to acquire components and capital goods (and, frequently, more advanced consumer goods), and it is here that the gaps in the production structure are most noticeable.

Since the large countries have achieved a more advanced production structure, however, they import relatively fewer manufactured goods, for although they possess nearly 80% of the industry, they make only a little over 50% of the region's external purchases of industrial goods, and there is a similar figure for imports of metal products and machinery, although they possess nearly 90% of the industry in question. In all the other groups of countries, their proportion of regional imports of manufactures is significantly higher than that of their production, that is to say, these countries are more 'open', primarily because of the different stages they have reached or the differing industrial model rather than their having developed 'open' economic positions, keeping in mind the intensive trade within the Central American Common Market.

The various models and degrees of industrial progress are not only reflected in manufactured exports and imports, as described, but also affect the orientation of exports, although they influence less the source of imports,

wherein those from developed market economies, which consistently total around 90% for the region as a whole, nearly always predominate.

The three largest countries, all of which have more diversified production structures and manufactured exports, have most expanded their markets throughout the world, despite the relative concentration of Argentina on LAFTA, Brazil on LAFTA, the United States and the European Economic Community, and Mexico on LAFTA and especially the United States. At the same time, however, these countries have significant industrial exports to the socialist countries and to Asia, the Middle East and Africa, especially in the case of Argentina and Brazil, since Mexico, being further behind in the metal products and machinery industries, functions less as a technologically intermediate producer and directs its industrial exports principally to the United States and the other countries with developed market economies, often within intra-industrial and intra-company trading setups. The medium-sized countries concentrate these external sales primarily on less complex products and on the markets of the region, and penetrate the markets of the developed market economies through more specialized patterns, entering other markets only exceptionally. Naturally, the Central American Common Market countries concentrate on traditional products and especially on reciprocal trade. The other small countries export few manufactured goods, nearly always simple ones from highly specialized categories on the basis of their natural advantages, especially when aiming them towards extra-regional markets.

Intra-regional trade in manufactures is

significant, but only in so far as exports are concerned, the latter representing 44% thereof around 1965, and later dropping to around 40%. The corresponding imports, however, represent less than 9%. This situation undoubtedly reflects their big demand for technologically more advanced manufactures (manufactured imports from the centres total around 90%, and even more if imports from the socialist countries are included) and the fact that regional industry has not been able to make them available among the countries themselves, leaving aside the question of technological dependence, with respect to which the intermediation of the semi-industrialized countries is not adequate. The regional market has, nevertheless, provided these countries with a basis for moving into other markets, and transnational corporations have played a significant role in this.

Regarding these corporations, it is important to stress that in general terms they show minimal interest in exporting but a great vocation to import, largely on the basis of captive trade between main offices and branches and among branches located in the region, as Luiz Claudio Marinho states clearly in a recent study.<sup>11</sup> It has been observed that in many countries the external operations of transnational manufacturers, especially if financial movements are included, account for a considerable portion of the balance-of-payments current account deficits of the countries in question.

<sup>11</sup>Luiz Claudio Marinho, *Las empresas transnacionales y la modalidad actual de crecimiento económico de América Latina: algunas consideraciones* (E/CEPAL/R. 229, 19 June 1980).

### III

## Discussion scenarios

### 1. *On the normative horizon*

#### (a) *General characteristics of the eventual norm*

After the Second World War, major political and economic projects were developed which supported the international boom that finally ran into crisis in 1973-1974. Industry, and even more so the international trade in manufactures, played a leading and dynamic role in that boom, especially among the developed market economies which, from 1955 to 1973, increased their reciprocal trade in these products from 53% to 63% of the world total.

The industrial growth of the developed economies (North America, Western Europe, the centrally planned European countries, Japan) was characterized by rapid technological innovation in products and production methods and by the manufacture of goods for huge national and international markets in line with the widespread advance of social progress. Within the great overall system of the developed market economies, trade tended to be organized through regulations (GATT) and negotiated integration blocs (EEC, EFTA) in an atmosphere of progressive trade liberalization and export-oriented policies. The socialist or centrally planned economies, which together with Japan had the highest indexes of industrial growth over the past three decades—10.2% and 12.7% per year, respectively, as compared with North America's 3.6% and Western Europe's 5.2% annually—also formed a group (CMEA) and developed a policy that was relatively closed to manufactured imports from outside the bloc. Japan, for its part, became a spectacular exporter of industrial products of growing 'sophistication' and technological content, while simultaneously developing according to a policy that was extremely closed to imports of such products.

The active world trade in manufactures was increasingly influenced by rapid innovations and the need for technological exchanges, as

demonstrated by the fact that trade in products with the highest technological content, such as machinery and transport equipment, has been the most active. Among the developed Western market economies, this trade takes place very symmetrically according to intra-sectoral specialization patterns in which products of similar technological level are exchanged. The openness, although very limited, to manufactured imports shown by the socialist economies and Japan largely corresponds to items where those countries have technological gaps. Furthermore, the manufactured imports of the developing countries contain an increasingly heavy proportion of intermediate and capital goods which incorporate the technology created in the centres.

Within this general situation North America, and the United States in particular, is in a separate sphere; with an income level three times as high as that of Western Europe in 1950 but currently only twice as high, it is the largest single market in the world, the principal creator and provider of technology, and for some time its economic expansion has been sustained less by industrial growth, at least if the latter is measured conventionally, thus approaching what is usually called the post-industrialization stage.

Western Europe has long been a market with a high degree of industrial integration. In 1955, as now, reciprocal manufactured imports represented 80% of the total from every part of the world and around 60% of manufactured exports corresponded to reciprocal trade. We also know that there is constant heightening of the trends towards the strengthening of integration processes and the intensification of scientific and technological research aimed, *inter alia*, at maintaining and enhancing competitive positions.

The centrally planned economies, which have doubled their degree of industrialization and nearly quintupled their per capita product since 1950, did so by forming a political and economic bloc with a socialist pattern and a

significant degree of disconnexion from the rest of the world. Like the Western European economies, they are economies with a technological tradition, and the efforts they have made have been very notable.

Japan, which nearly trebled its degree of industrialization and is close to having septupled its per capita product since 1950, also has traits which set it apart among the developed economies, such as its scarcity of natural resources: a situation which led it to industrialize profoundly and make intensive efforts to adapt or develop adequate technology, until it managed to place itself in a spectacular export situation with manufactures of growing technological complexity. This country does not share the openness to manufactured imports of the other developed market economies, especially in its trade with them, nor their industrial internationalization with respect to the penetration of foreign transnational corporations. Similarly, it is distinguished from such economies by the outstanding role of the State which, although far from being on the socialist scale, followed somewhat similar lines due to the country's need to make deliberate efforts to achieve industrialization.

Naturally, in the developed Western market economies the State continues to play a role in industrial progress. Apart from the manipulation of economic policy instruments often used for very specific industrial objectives, the State's decisive influence on research and development stands out in the figures on public financing of such activities, which in countries like the Federal Republic of Germany, Canada, Spain, the United States, Norway, the Netherlands, Great Britain and Sweden has recently amounted to 40% or 50% or more of total national expenditure in that category.<sup>12</sup> In addition, the large State scientific and technological development projects (such as those on atomic energy, space travel and defence) clearly do much to disseminate technological progress. Furthermore, in the industry of countries such as those of the European

Economic Community one notes the significant presence of the State as an entrepreneur, sometimes in connexion with nationalization action taken almost entirely without doctrinal causes but rather for specific economic and social purposes.<sup>13</sup>

The developed economies have thus achieved industrial positions which with some exceptions have certain constant characteristics, as noted in preceding paragraphs, which differ substantially from the Latin American characteristics mentioned above.

In the oldest industrialized economies, these characteristics include an advanced degree of complementarity in the production of consumer, intermediate and capital goods for large national or international markets, a fact which is reflected notably in the patterns of trade in industrial products. Firstly, there is the high proportion of manufactured exports; secondly, the preponderance of trade in those types of manufactures with the greatest technological content and degree of modernization, particularly in the metal products and machinery branches; and finally, a position of net exporter of manufactures (United States, EEC, Japan) or one near equilibrium (EFTA, centrally planned economies).<sup>14</sup> Of course, all of this is combined with an industrial structure wherein the relative weight of the metal products and machinery industries is increasing, to reach figures ranging from 36% (EFTA) to 49% (centrally planned economies), while the weight of the non-durable consumer goods industries is decreasing to around 20% or 25% of the gross manufacturing product. As already noted, it is obvious that this process corresponds to the modifications in the demand structure whereby, once basic needs are met, the population's demand is directed towards more 'sophisticated' branches in line with the technological

<sup>13</sup>A. Arancibia and W. Peres, "La polémica en torno a las empresas públicas en América Latina", in *Economía de América Latina*, September 1979, semester No. 3 (México City, CIDE). Among other sources, the authors quote Cozzi, S. and Olmeda, G., "La presencia de la empresa pública en los países de la CEE", in *Cuadernos de Economía Política*, No. 8, Rome, January 1973.

<sup>14</sup>United Nations, *Yearbook of International Statistics*, 1978, Vol. 1, New York, 1979 (ST/ESA/STAT/SER.G/27).

<sup>12</sup>UNESCO, *Science Policy Studies and Documents*, No. 43, Paris, 1978.

progress in all economic activities and that which is incorporated into manufactures, all of which naturally has an effect on the chain of demand for consumer, intermediate and capital goods.

It may be pointed out that among the essential characteristics of the eventual norm is the high degree of self-sufficiency in the supply of manufactures in the large national markets or within economic blocs. Thus, it is to be noted that the developed capitalist economies as a whole do not open their industrial product markets greatly to the rest of the world; it is true that there has been a scarcity of suitable supply from the rest of the world, but it is equally true that there have also been protectionist elements at work<sup>15</sup> which have tended to intensify recently, especially due to the trade imbalances caused by the rise in petroleum prices and the crisis which began in 1973-1974, with the accompanying recession, unemployment and inflation.

The crisis has revealed some structural failings, among which are the loss of competitiveness of some industries, especially light ones, compared with those on the periphery. Apart from the protectionist reaction of the centres (the developed market economies) and some opening of the socialist economies (above all for technological reasons), however, the most substantive revisions have not gone far beyond intellectual spheres, some concern on the part of employers, political discussions, and denunciations by the periphery in international forums, all this despite the serious trends which have already been developing and which may be foreseen for the future with respect to the restructuring of the world economy and the internationalization of capital and production.

#### *(b) Positions in Latin America*

As all the analyses show, in essence the Latin American industrial strategy has followed a course from easy to more complex industries, basically oriented toward domestic

markets. The explicit or implicit central idea has been to emulate that which it seemed would eventually become the industrial norm, that is to say, the pattern of the developed economies. It is obvious, however, that Latin American industry is a long way from having the characteristics of the same sector in the mature economies, even if the most highly industrialized countries in the region are taken into account, and an even more important point to make is that the trends do not indicate that the region can come really close to this model, at least in the near future.

These trends are compounded by the fact that, partly because of the persistence of significant economic (such as external imbalance) and social (such as marginality and poverty) problems, as well as dissatisfaction regarding the rates of economic expansion, opinions are forming which deliberately abandon the industrial norm to which in any case, the Latin American industrialization process has not adhered in fundamental respects such as scientific and technological development and availability of large markets. It should also be repeated that industry does not have much autonomy with respect to the general economic and political determinants, so that consequently it cannot be saddled with responsibility for the most serious development problems of the region, especially when one realizes that it represents just over one-fourth of the Latin American economy and that less than one-fifth of the economically active population is employed in manufacturing.

Although to some extent the norm is being revised in the central countries themselves, and radical changes may be expected in the world economic order, the heart of the matter seems to lie rather, in the case of Latin America, in a certain underlying scepticism regarding the viability of implementing advanced industrial patterns, while there are also arguments holding that other industrial paths will give better support to general development or questioning the validity of the norm for the specific case of the region and the heterogeneous countries making it up.

Factors behind this scepticism include the large and in some respects growing gaps separating the region from the developed

<sup>15</sup>The background of UNCTAD I and the generalized systems of preferences illustrate this persistent protectionism.

economies, as well as the nature and magnitude of the political efforts and commitments which will be necessary to bring industry closer to this normative model. Thus, it may be said that this immanent scepticism is manifested in matters such as the region's great relative backwardness in scientific and technological development, which is expected to increase in the future and which leads many to sustain the thesis that unbounded dependence is inevitable or that it would be advantageous to acquire all of the technology without needing to use huge resources on research and development—a prospect which would be somewhat like following a mirage in view of the greater importance of establishing dynamic forms of accumulation and/or giving priority to urgent social objectives.

At all events, the discussion of the norm's suitability is somewhat ambiguous, and it is frequently difficult to strip it of the halo of scepticism mentioned above. Two positions may be noted, however, which are fairly well defined when expressed in simplified terms. One is the position taken by those who somehow find in the norm the paradigm of industrialization and are concerned basically about the proper directions to take and the right instruments or mechanisms to use. The other position, with its different variations considered below in connexion with the relevant situations, rejects or indefinitely postpones the norm and attempts to formulate other options and suggest ways of implementing them.

The first position holds the norm to be suitable but recognizes the heterogeneity of the countries in the region and the uselessness of applying the norm to isolated countries; it then takes the European experience and stresses collective efforts in conformity with the ideological bases underlying the Latin American integration agreements (LAFTA, the Andean Group, the Central American Common Market). Its basic arguments revolve around the dynamic capacity of the industrial structure derived from linking the production of consumer goods with that of intermediate and capital goods; the inability of primary exports to support the incorporation of foreign technological progress to benefit the entire society; and,

consequently, the need to participate in the most active currents of international trade on the basis of intensive reciprocal intra-regional trade, serious efforts to achieve complementary scientific and technological development, and a certain degree of selective disconnexion from the rest of the world, at least until more solid industrial positions are reached.

There are many variants based on this position, mainly distinguished by the directions proposed, which as may be gathered from most of the official statements made during the past decade,<sup>16</sup> are usually connected with priority social goals, the variants themselves being the subject of specific policies to which industry would adapt itself.

One of these variants is the industrialization pattern which has predominated up to now in Latin America but which, some say, will soon reach the end of its role as a preparatory phase for more advanced stages. This line of thought puts forward proposals regarding the possibility of deliberately, through specific policies, correcting trends and especially gaps, for example by means of a strategy designed to accelerate the production of intermediate and capital goods, generally in conjunction with policies for the export of industrial products within intra-sectoral specialization schemes and sometimes within the framework of international integration agreements in order to secure markets of the appropriate scale.

Of course, it is not a question of black or white in these matters, since different positions frequently meet in common areas, or the differences between them are subtle and hardly distinguishable, although sometimes these subtleties mask elements of enormous importance. Thus, the variants proposed as part of the currents of opinion which back up the norm tend to merge and become confused with the prevailing trends or the implicit strategies of Latin American industrial policy which define a specific model pattern or dynamism, raising it to a higher level without changing its basic nature.

<sup>16</sup>Consideration of 26 general and industrial development plans and programmes from 16 Latin American countries clearly demonstrates this.

## 2. *On world economic restructuring*

The rejection of the norm, which is often even considered obsolete for Latin America now that inclinations towards a new international economic structure are being shown, together with the dissatisfaction with prevailing trends, are leading to the expression of other positions more and more clearly. Nevertheless, the crucial distinctions are difficult, and as already noted the various political commitments inherent in the different industrial options are frequently not expressed clearly.

Positions inspired by the need to restructure the world economy are many, but they obviously share a common strategy aimed at the export of manufactures, with or without the development of domestic markets. These positions state that restructuring implies the redeployment of industry to benefit the periphery, which would offer advantages such as natural resources and abundance of labour. In this way, the structure of the international division of labour would be transformed, and new forms of accumulation based on the above-mentioned advantages would be reinforced in accordance with trends toward the internationalization of capital and production. Thus, the technological, entrepreneurial and market factors would be contributed essentially by the centres, whose companies would locate in Latin America industrial activities less markedly oriented towards domestic markets and more aimed at the world, and especially the markets of the centres themselves.

One of the arguments in favour of these viewpoints is the technological backwardness of certain central country industries, especially light ones, which must at all costs maintain high salaries to meet social priorities, and have consequently lost their competitiveness against the periphery, as mentioned earlier. This fact had already somewhat affected the international division of labour during the world economic boom, especially benefitting the industries of semi-industrialized countries in Latin America and Asia. In the former, the phenomenon took place essentially on the basis of the already existing industrial nucleus, while in the latter it was related to policies designed to establish industries decisively

oriented towards exports; it was generally, in both cases, directly or indirectly thanks to the activities of transnational corporations.

Naturally, the success of exports to the centres was much more important for the four Asian countries mainly involved: South Korea, Hong Kong, Singapore, and Taiwan. In addition to their strategies directly aimed at exports, their lower wage levels and the activities of the transnationals, it must be noted that these countries had very poor natural resources and were politically in the front line, so that they were protected by the market economy powers. Moreover, the model which emerged in them was essentially assembly industry with a high degree of import and re-export, as on Mexico's northern border with the United States, where the assembly industry has acquired great importance, although the employment it offers does not exceed 10% of the country's manufacturing employment, and the value added in the country is only around one-third of the value of the re-exports.

Aside from Mexico, some activities of this type have been located in other countries of the region (especially in Central America), although on a smaller scale, while in others, such as Panama, they are being planned. It is difficult to view the reproduction of the Asian model on a large scale and in a general manner as viable for the region, however, primarily because many countries have passed the levels of development and industrialization of the four Asian countries mentioned above and entered much more advanced industrial stages, and also because generally Latin America has significant natural riches.

Thus, although the Asian model inspires some strategies, generally of a conservative political stance, the global Latin American option within the framework of world economic restructuring is generally proposed in terms of more profound industrialization, within which sub-contracting (one of the forms of which is the assembly industry) is not the most important ingredient. Many analysts think that the existing Latin American industrial bases could give rise to development based on intra-industrial trade and exports of manufactures with a high degree of national and/or regional or sub-regional integration.

At all events, these positions frequently propose the idea of opening up and activating world trade so that it would give rise to a new form of the international division of labour and promote reciprocal stimuli between the centres and the periphery in order to achieve economic activation and development. Ideas have also been proposed such as those involving industrial redeployment on the basis of the advantages of the periphery, especially those connected with natural resources and the new forms of accumulation offered by the low wage levels, together with the industrial restructuring of the centres to concentrate on spearhead and highly technical industries.<sup>17</sup>

These ideas clash with the protectionist position of the centres: a fact reflected not only in the respective policies, but also in the severe limitations formulated in the corresponding legal instruments within the United Nations. Moreover, it is by no means unlikely that the efforts being made to achieve technological

progress will tend to weaken or invalidate some of the advantages of the periphery once investments start to be made by the centre; it is suspected, for example, that the industrial revolution implied in the generalized use of micro-processors could undermine the 'advantages' currently offered by low wages in labour-intensive manufacturing activities.

Nevertheless, Pedro Vuskovic<sup>18</sup> notes that there are very noticeable trends towards industrial redeployment from the developed capitalist economies to the periphery because of the large masses of cheap labour there, under the banner of the internationalization of capital and production and with the consequent denationalization of the developing countries. In contrast to the technological progress which, through productivity increases, would tend to counteract the 'advantages' of low wages and lead to 'defensive' investment,<sup>19</sup> Vuskovic mentions the fact that other advances help support the trend towards redeployment, such as those which facilitate the splitting-up of production processes and the separation of those stages requiring greater labour density or capable of being performed by less-skilled workers, the greater efficiency of transport, and the facilities brought to long-distance administration by improved communications. Vuskovic explains that "because of this, the historical opportunity for autonomous industrial development which would represent progress towards new stages of development of the productive forces and new and more progressive social objectives is not being opened up... (to the underdeveloped areas)".

It would appear that these trends in the capitalist economy and their actual meaning for Latin American industry are in line with the dependent industrial model which predominates in the region and which in some cases is even tending to be accentuated due to influences from abroad which penetrate society, the economy, industry and the markets and are not,

<sup>17</sup>In the international sphere, the concept of industrial redeployment has been widely discussed as a result of the Second General Conference of the United Nations Industrial Development Organization (UNIDO), held in Lima in 1975, at which resolutions later ratified by the United Nations General Assembly were adopted.

To begin with, the essence of redeployment lay in the loss of competitiveness by certain industries in the developed countries in the face of the periphery's 'advantages', principally in abundant and cheap labour, the availability of natural resources and energy, or an ecology which could withstand contaminating or 'dirty' industries.

Currently, as can be inferred particularly from the positions of the developing countries, while some of these points are accepted or rejected, the concept of redeployment has been expanded on the basis of a spectrum of broader objectives conforming to the industrial aspirations of the periphery. Such positions appear principally in the resolutions of the Second Latin American Conference on Industrialization (Cali, Colombia, 1979), the proposals of the Group of 77 (Havana, 1979), and the Declaration and Plan of Action of the Third General Conference of UNIDO (New Delhi, 1980).

There has been some industrial redeployment towards the periphery: the installation of industries for domestic supply and assembly industries for re-export, for example. The new idea was to accelerate redeployment, covering activities to meet domestic but especially external demands from the centres or other expanding markets. Ever since these ideas appeared, however, they have stressed concerted redeployment, not necessarily within the framework of general trade liberalization. This reflected the reluctance of the central countries and implicitly took account of the undesirability of unrestricted opening-up in favour of the periphery.

<sup>18</sup>Pedro Vuskovic, "América Latina ante nuevos términos de la división internacional del trabajo", in *Economía de América Latina*, March 1979, Semester No. 2, CIDE, Mexico City.

<sup>19</sup>Javier Villanueva, *Perspectivas del desarrollo industrial latinoamericano: una completa transformación*, IDB/INTAL, Basic Studies Series No. 3.

as in the mature economies grouped in various combinations, counterbalanced by outward influences. Thus, more intensive internationalization and interdependence would have a predominantly de-nationalizing effect on Latin America, where confidence in indigenous and collective industrial efforts within the region would decline even further, quite apart from the serious ethical dilemma which would be posed by using low wages to support the export of manufactures.

It would seem that outstanding among these influences, which have been extensively analysed in Latin American economic and social literature and briefly recalled in other paragraphs of this document, are the transnational corporations, which have been assuming the most dynamic role in the industry of many countries in the region due to their favoured location in spearhead areas or in others where, because of their characteristics, they take the lead in the activities involved. Such a propensity does exist, since it is a well-known fact that, at least in relative terms, these corporations have been replacing local private corporations, which in many countries barely hang on as the predominant owners in traditional branches or backward industrial strata, while the public enterprises generally maintain their dominant role in the basic areas.

In this way, the ultimate effects of world restructuring would once again be accomplished facts which Latin America would receive passively, and the markets of the centres would be added to the other elements of external influence. Again in the words of Carlos Matus,<sup>20</sup> it would once more be a matter of a "dynamic conjuncture" and not of a "constructed policy" based on ideas which took account of the most important objectives of economic and social development.

### 3. *On the International Development Strategy*

The principal objectives and mechanisms of industrial policy in Latin America have been discussed in connexion with the formulation by the United Nations of the International Development Strategy for the 1980s.

<sup>20</sup>Carlos Matus, *op. cit.*

In these discussions, the first thing one notices is the nature of the proposals, which are highly industry-oriented, although within patterns which safeguard other goals such as those connected with agriculture, nutrition and other social problems. These positions, which maintain or enhance the leading role of the manufacturing sector, are rooted in the Third World's general aspirations such as the "Lima objectives"<sup>21</sup> aimed at the achievement by the developing countries of 25% of the world's industrial output by the year 2000 (as against 9.1% in 1978), or Latin America's ambition of attaining by the same year a share of 13.5% of world industry (4.9% in 1978).<sup>22</sup> Thus, while significantly faster economic growth objectives than those of past long-term trends are established for 1990 and 2000 and their implications are reviewed, industrialization processes are calculated and considered which provide for even more rapid manufacturing growth rates.

The fact that such aspects are mentioned in various quantitative scenarios is in line with the idea of analysing economic implications in the light of the social goals of development. They are thus illustrative exercises, although they generally correspond to Latin American aspirations, which include not only the acceleration of economic and industrial growth, but also the desire for this growth to take place more evenly throughout the countries and not in such a disparate manner as in past decades.

The implications for industry are fairly serious, since high growth rates require much more extensive development of manufacturing than in the past and make it necessary to meet needs such as those of exporting on a large scale to furnish the capacity required for importing as well as to permit the viable operation of branches that call for large markets. In short, what is involved is structural improvement, above all relating to the efficient production of intermediate and capital goods with higher technological content.

This improvement, of course, involves the need to increase the dynamic capacity

<sup>21</sup>Third General Conference of UNIDO, Lima, Peru, 1975.

<sup>22</sup>Latin American Conference on Industrialization, Mexico City, 1974.

stemming from technological relationships between final, intermediate and capital goods production inside and outside industry. It also involves, however, the need to participate in the most active international trade flows and to adapt supply to the requirements of the intra-regional trade in manufactures, whose growth rate must be extremely rapid in view of the discouraging predictions regarding the demand of the central countries, from which around 90% of the manufactures imported by the region currently come and in which products connected with this structural improvement predominate.

At this point it must be kept in mind that we are proceeding from the assumption that after several decades of manufacturing development oriented towards domestic markets, the industrial stage reached by the region would allow many countries to expand the spectrum of their industrialization objectives. Thus, for example, in most countries exports of manufactures are not viewed as an optional strategy but as a complementary element in a more advanced stage of industrialization. In general terms, the orientation of industrial output towards the population's basic needs would likewise not constitute a separate strategy, since Latin American industry would be capable of meeting the demand arising from objectives and policies aimed at the full-scale incorporation of the population into the benefits of development.

It should also be made clear that in the quantitative terms which are usually employed, the emphasis on exports of manufactures does not imply an industrial model excessively directed abroad. In the first place, we must recall that for ten years Latin American exports of manufactures grew at a rate of just over 20% annually (at constant 1970 prices) until the end of the world economic boom in 1973-1974. The coefficient of manufactured exports, or their FOB value in comparison with the gross domestic industrial product, barely reached 8%, or approximately 4% if only the value added by these exports is counted. In other words, the experiment in rapid expansion of manufactured exports has already been carried out with rates comparable to those which

would be required in order to permit rapid rates of economic growth and, although they grew as a share of the product, they do not explain the industrial dynamism of the past. For the 1980s, it may easily be calculated that if industrial expansion were 8.5% per year and exports of manufactures grew 20% annually, by 1990 the increase in industrial output due to these exports would only represent just over 16% of total industrial expansion, and the export coefficient would climb only from 4% to 11%.

Thus, even taking account of the indirect, dynamic impact of external sales of manufactures, the model will continue to be one of predominantly inward-oriented development. Domestic demand based on the general economic dynamism and the removal of socio-economic frontiers, together with structural improvement and its stimulating effects, will be elements of prime importance for industrial expansion. Since it is generally felt that the Latin American development style will continue to involve large imports of manufactures—a scheme which cannot indefinitely be based on external indebtedness in view of the inability of primary exports to finance the necessary import capacity—manufactures will be given an active role in exports, on the basis of the structural and technological improvement of regional industry.

At this point we must ask what difference there would be for Latin America between the industrialization patterns proposed and the positions oriented towards the industrial model of the developed economies, since rapidly expanding exports of manufactures have implications which bring these patterns closer to the norm. Firstly, one must think, at least in the long term, of the most dynamic trade flows, i.e., exports of products such as chemicals and metal products and machinery. Secondly, in the light of the prospects of the centres, there is greater need to stress intra-regional trade, within systems of intra-sectoral complementation and specialization, in line with the restrictions imposed by domestic markets and the heterogeneity of the countries. Apart from their effect on domestic dynamism, which is based on the linkages between the consumer, inter-

mediate and capital goods production processes, these considerations mean that there is an urgent need to orient the structure of regional industrial production towards that of the centres, modifying it only slightly in the light of the local availability of natural resources, environmental and energy precautions or the most pressing social objectives. If this is not done, it would be easy to predict that the gaps which currently separate the region from those economies will tend to broaden, that the internal and external imbalances characteristic of Latin America will get worse, or simply that long-term economic growth will be threatened. Thirdly, we must again stress what we have said regarding the scientific and technological development effort and the creation of comparative advantages in accordance with the dynamic conception of these.

The similarities between the patterns corresponding to the ideas discussed in connexion with the International Strategy and positions oriented toward the norm are again to be noted when the direction followed in successive transitional situations is observed. For example, in both cases an industrial and technological maturation process is involved until industry acquires an advanced capability to compete beyond simple technological intermediation with respect to the domestic and external markets. This is so because international trade in manufactures is increasingly motivated by the requirements of technological exchange: that is, the need for innovations incorporated into industrial products, either consumer, intermediate or capital, quite apart from the influence of comparative advantages in their dynamic form, of course. Otherwise, industry could continue to grow without solving persistent problem such as the uneven development and asymmetry of foreign trade, although these problems could move to higher levels, as in the case of a strong position with regard to exports of traditional manufactured goods with lower technological content and weaker elasticity of demand: a position which could be attained primarily by opening up the enormous markets of the developed economies. The concept of the path to be followed thus implies the idea of raising this level and using pragmatically all possible channels for industrial development

and export, as well as the industrial enrichment of primary products and the opportunities to be provided by redeployment within the context of the New International Economic Order.

At this point the ideas in question not only become akin to the position oriented towards the norm, they also overlap with the position involving international economic restructuring, although they certainly go far beyond it in terms of explicit long-term objectives and the types of international agreements felt to ensure real benefits for the region.

Perhaps the differences with the position oriented towards the norm are due mainly to the fact that the ideas in question are discussed within the context of the new International Development Strategy, which naturally stresses world economic reordering and, consequently, external connexions and international co-operation, especially that originating in the central economies.

According to the ideas being considered, the region's domestic and collective efforts and horizontal co-operation at the Third World level would have to be very substantial and must seek not only to form a suitable industry with respect to the fundamental goals of economic and social development, but also to face the international difficulties resulting from recessive trends in the world economy and the often negative position adopted by developed economies with regard to the problems of the periphery and the ways in which Latin America seeks to gain full entry to the world economy.

Within the framework of such concepts, it would be extremely hard to attain ambitious economic and social objectives without the co-operation of the developed economies. It must be kept in mind that this includes the idea of benefiting from, *inter alia*, the technological progress achieved by the centres; the entrepreneurial capacity which they have generated; international capital and financial aid; forms of accumulation offering advantages to the region; and the large markets of the developed economies. The possibilities for success would increase if all of these elements were combined, and this would require of the central economies a flexible willingness to co-operate within the framework of the New International Economic Order and, with more specific re-

gard to industry, in accordance with the Lima<sup>23</sup> and New Delhi<sup>24</sup> Declarations and Plans of Action, and at the regional level, with the statements of the Latin American governments at the Cali meeting.<sup>25</sup>

All of these instruments are in line with the trend whereby, as the world economy has kept on increasing the degree of internationalization and interdependence among countries and regions (a development in which the periphery, and particularly Latin America, is involved), ideas and requests for co-operation have been proposed in increasingly integrated guise as regards their scope, forms and themes. Nevertheless, the appraisals made do not reveal results commensurate with the complexity of these sets of proposals, as may be seen from a declaration of the Group of 77,<sup>26</sup> for example, or as emerges from the analyses made within the framework of the Latin American Economic System (SELA) regarding the lack of political will shown by the industrialized countries in the North-South dialogue, at UNCTAD V, UNIDO III, the Tokyo Round, and the Venice Summit.<sup>27</sup> Governments, too, have stressed this, or left it to be inferred, in the regional appraisals of the International Development Strategy made in the 1970s in CEPAL.

It is these factors and the uncertain world economic trends that give rise to the main unknown quantities, one of which is the industrial significance which the new International Development Strategy for the 1980s could have for Latin America. Of course, there are also major uncertainties connected with the domestic policy of the countries in the region and the need to strengthen intra-regional ties.

The topic of intra-regional ties merits special attention, since it is felt that one of the most dynamic and fundamental pillars of development is the rapid growth of reciprocal trade

in manufactures among Latin American countries. Estimates for the year 2000 predict profound changes in the region's foreign trade in industrial products, the most noteworthy aspect being that of manufactured imports, less than 9% of which currently come from intra-regional trade whereas, as noted earlier, 90% come from the developed countries. This state of affairs would have to change sharply until intra-regional trade in manufactures greatly increased, possibly to around 50% of imports or 70% (currently 40%) of exports.

Obviously, these proposals have very serious political, industrial and technological implications. Firstly, it must be borne in mind that this new structure of trade in manufactures would call for a high degree of regional co-operation, and this in turn would require firm and far-reaching socio-political support forces. Secondly, the intensive growth of reciprocal trade would involve significant changes in the industrial structure that would allow supply to be adjusted, especially in branches which are currently backward in their development such as some chemicals, metal products and machinery and others, particularly intermediate and capital goods. The regional scale makes such adjustments possible within the framework of rapid economic growth and also makes it easier to involve all the countries in various levels of specialization according to size of national markets and other factors, avoiding commercial relations of the centre-periphery type which tend to develop between the more- and less-industrialized countries in the region. The most serious problem, however, is connected with technological development and the autonomous efforts required for it, since limitless dependency and the desire rapidly to incorporate the innovations of the centre lead to permanent gaps which are usually filled through imports of manufactures, the production of which is slow to get underway and often does so with a high imported content.

For this reason, in some estimates for the year 2000 the Latin American industrial structure merely approaches that currently prevailing in the mature economies, the metal products and machinery branch being placed rather below the average of the developed countries.

<sup>23</sup>Second General Conference of UNIDO, Lima, Peru, 1975.

<sup>24</sup>Third General Conference of UNIDO, New Delhi, 1980.

<sup>25</sup>Second Latin American Conference on Industrialization, Cali, Colombia, 1979.

<sup>26</sup>Havana, December 1979.

<sup>27</sup>Latin American Regional Co-ordination Meeting prior to the Eleventh Special Session of the United Nations General Assembly, New York, August 1980.

These estimates also take account of the orientation which exists towards basic industries, in view of the availability of natural resources, and the stimulation of the market in numerous consumer goods branches which would be caused by policies designed to bring about the full-scale incorporation of the population into the benefits of development. In any event, the development of the metal products and machinery and other backward branches is essential in order to operate within the more flexible flows of international trade and to achieve a sharp increase in intra-regional trade.

#### 4. *The trend towards openness*

For some time, the strategy of 'openness' has been implemented, is in course of implementation or is under discussion in some Latin American countries against a background of conservative political ideologies and within the framework of orthodox economic policies. Its theoretical foundation is essentially that the free play of market forces in national and international spheres will bring benefits, on the assumption that these forces will lead to optimal resource allocation. At the international level it is assumed that competition will lead to an improved use of comparative advantages and to the promotion of efforts designed to improve production efficiency, technological innovation and competitive capacity. Conversely, it is assumed that selective and restrictive import strategies will inhibit exports, whereas the latter are essential for development, and that in general the expansion of international trade will once again constitute one of the fundamental bases for the revitalization of the world economy.

In its simplest version, 'openness'—defined as the removal of barriers against imports and based on the free play of market forces—has two basic implications: one involves the withdrawal of the State from production, planning and support or promotion activities, while the other implies the limitation of international trade regulations, including those affecting the activities of integration blocs.

Thus, 'openness' means abandoning not only direct, but also indirect protectionist policies like those inherent in national policies or

integration schemes designed to aid fledgling economic activities or to attain other objectives, such as some of a social nature (employment and rural development, for example) or those aimed at ensuring dynamic capacity and competitiveness in the medium term.

Clearly, as stated above, 'openness' in its purest sense involves no strategy regarding the production structure or, consequently, industrial, scientific and technological development, all of which is left to the forces of the national and international markets and to the comparative advantages which in industrially weak countries consist primarily of natural resources and/or low wages. Certainly, there is some connexion between this position and others in terms of the importance they attach to international trade, but the options contained in the conventional norm, world economic restructuring or the International Development Strategy stress trade in manufactures, whereas true 'openness' is not explicit on this point, although it assumes that employers, stimulated by competition, would try to achieve efficiency in order to trade in international markets oriented towards the world, without the red tape involved in association or integration accords or agreements between countries.

Extreme 'openness' might possibly be considered as a special form of the positions connected with world economic restructuring: that is to say, a form from which all types of discriminatory domestic policies (industrialization, generalized export of manufactures, subcontracting and assembly industries in free zones, etc.) or any other agreed schemes apart from that inherent in the liberalization of international trade are absent. It accepts that type of industrial redeployment which may be called spontaneous, but rejects that included in the ideas of the New International Economic Order which, as a means of supporting industrialization in the periphery, has been proposed in negotiated terms by UNIDO and the countries at its General Conferences and by the United Nations General Assembly, a fact which is well demonstrated by the establishment of the UNIDO system of consultations or the reservations of the developed countries which include clauses tending to protect their inter-

ests and security. Concrete political positions which conceive of or accept redeployment simply as a product of the liberalization of international trade are rarely encountered, since declarations on the subject by some developed countries frequently consist of rhetoric designed to placate the demands of the periphery for such items as access to their markets and technical, financial and entrepreneurial assistance in order to carry out the redeployment.

In general terms, the 'openness' in the region also corresponds to political views which give preference to national or foreign private enterprise and the free play of the market forces, even in a situation of oligopolistic structures and concentration of capital. Although the question of openness is topical in most countries of the region, in many of them it is accompanied by explicit, concrete policies for industrialization and the promotion of exports of manufactures along lines which in some cases were successful at a much earlier date.

It is perhaps worth recalling that, in spite of protectionist régimes of weak or average intensity, some middle-sized countries (such as Venezuela, because of petroleum) and many small ones (such as those of the CACM and especially Panama, *inter alia*) have always been very favourable towards manufactured imports, reflecting industrial results which differ from those of the large countries and primarily due to the restrictions of the domestic market, the availability of natural resources or their geographical positions (for example, the presence of the Canal gives Panama a natural tendency towards services), rather than to differing aspirations.

Certainly, Latin American analyses have long maintained that external competition is healthy within the prevailing economic and socio-political context, which is extremely demanding with respect to imports of manufactures (especially intermediate and capital goods and also luxury consumer goods in the least-industrialized countries) and, consequently, with respect to the exports which are needed to ensure the necessary import capacity. This, among other things, was kept in mind when the ideological bases for the integration agreements were established according to

which the expanded markets would provide support (scale, efficiency, specialization, commercial experience, etc.) for the access of their manufactures to international markets in general. To some extent this has happened, most notably with metal products and machinery of high technological context, although it has mainly taken place in the largest countries.

The current trend towards openness in Latin America obviously follows the import-export model, but avoids integrationist positions and is directly oriented towards the world. It is precisely for this reason that in the industrialization debate it is interesting to note that conceptually speaking this trend fits in with what Fernando Fajnzylber calls the "global restructuring project"<sup>28</sup> with respect to world capitalism: a project aimed at liberalizing the market, which has been taking intellectual shape in some financial, entrepreneurial, academic and political circles. As far as the developing countries are concerned, these concepts hold that "ideal projects would be those which make world economic expansion functional by facilitating imports, eliminating export subsidies, promoting and creating favourable conditions for foreign investment, weakening the regulatory action of the public sector, freezing wage pressures and questioning regional co-operation schemes". On this matter, in addition to other comments, Fajnzylber states that "given the political and social situation of the developed world, it is hardly likely that the 'global restructuring' project will be fully implemented...", and that with respect to industrial exports, "the Latin American countries must simultaneously face the promotion of exports from developed countries, growing protectionist barriers in the developed countries, pressure to diminish their own protectionism [that of the developing countries], and trends promoting the provision of greater facilities for direct investment in the countries". He adds that it is paradoxical that it should be "in this context that the most forceful criticism is made of Latin American industrial-

<sup>28</sup>Fernando Fajnzylber, "Sobre la reestructuración del capitalismo y sus repercusiones en la América Latina", in *El Trimestre Económico*, Mexico City, October-December 1979, No. 184.

ization, calling for the elimination of protectionism and the reduction to a minimum of 'interference' associated with public action".

At least for the foreseeable future, then, Latin American 'openness' must be unilateral, because the region forms part of an international economy which has no intention of freeing the market forces, and even if this were done by governments, the growing industrial domination of the great transnational corporations which tend to control trade and manage the market for manufactured products, especially those in which international trade is most vigorous, would still remain.

Within the region itself, the trends towards openness which are expressed in significant realities are few, so that within the Latin American framework as well they are in practice unilateral and, naturally, have not been concerted.

Moreover, the few Latin American experiments are as yet extremely short, and none has reached the purest and most extreme version of 'openness', even that of Chile, which is the most advanced. The only one which goes back any length of time is the Panamanian experiment, but this has very special characteristics since Panama is one of the Latin American countries of most recent industrialization and its manufactured exports are insignificant.

Furthermore, it would seem that openness helps to heighten some of the basic traits of the context of Latin American industrialization and its patterns. Consumption, of course, is imitative and advanced in comparison with average income, and there is a strong tendency to import manufactures within asymmetrical external trade patterns, since the main easy comparative advantages lie in the abundant natural resources, which lead to the export of raw materials and foodstuffs with little or no processing, or at best to the export of semi-manufactured goods, among which most of the so-called 'non-traditional' exports should be classified. To this must be added the structural weakness with respect to inter-industrial relations, technological dependency, transnationalization, external indebtedness, and de-nationalization in general.

One may easily observe that openness has different meanings in countries with differing

industrial characteristics and situations. Aldo Ferrer,<sup>29</sup> for example, in analysing the orthodox economic policies implemented in Argentina and Chile, explained how they have had differing effects in those countries on "the process of readjusting the production structure and dismantling industry" and points out that the "dynamic effect of export activities based on comparative static advantages" is also very different. He views economic size and degree of industrial advancement as especially important, and concludes that, given the larger domestic market and much more advanced and integrated industrial position of Argentina, in that country "the dismantling of the industrial base ... is a more difficult undertaking ... than in Chile". He submits that "in a smaller economy, the dismantling of industry ... may be compensated by the expansion of exports based on ... natural resources", but that "in an economy the size of that of Argentina, this is practically impossible", so that "in the Argentinian case, the orthodox strategy inevitably implies a drop in the growth potential of the economic system". One must ask, however, if in smaller economies the compensation referred to can last over the long term.

##### 5. *Inward-oriented strategies*

So far we have commented on four schemes or scenarios which in one way or another involve relatively different industrial strategies: the position oriented towards the model of the advanced countries, world economic restructuring, ideas in line with the new International Development Strategy, and the trend towards openness. As we have noted, however, these schemes overlap, so that it is often not easy to distinguish them clearly, with the sole exception, perhaps, of the trend towards indiscriminate openness. It is also often difficult properly to assess the differences in industrial projections implied in these schemes, especially when they are considered according to the concept of the path to be followed towards more advanced positions.

<sup>29</sup>Aldo Ferrer, "El monetarismo en la Argentina y Chile", in *Ambito Financiero*, Buenos Aires, 22 August 1980.

Nevertheless, and although the distinction between the four schemes is somewhat ambiguous, the discussion is useful and revealing with regard to some of the most important industrial implications, as explained earlier. Thus, the position oriented towards the conventional norm is extremely clear in its formulations, since the path it prescribes is based on the industrial model and the economic and integrationist machinery of the developed economies and it assigns an important role to complementary technological development, which is not the case with the scheme corresponding to world economic restructuring and much less so with that aimed at openness. Only the new International Development Strategy takes a position which is more favourable towards the norm, from which it draws extremely important elements, while however greatly stressing extensive external connexions and integral international co-operation with emphasis on the responsibilities of the developed market economies and on intra-regional links.

It should be stressed that one of the common points or areas where these schemes, and their respective industrial projections, coincide is that of the importance attached to external relations, although they often differ fundamentally with regard to the accent or direction thereof. It is here that some of the most obvious differences with the inward-oriented strategies of the region and the countries may be seen. In these strategies, priority is given to industrialization linked with the primary sectors, especially agriculture; to solving social problems and providing employment; and to meeting the population's basic needs according to partially indigenous technological patterns with consumption schemes suited to the level of development and frequently in line with deliberate distribution policies. Consequently, it is in connexion with these objectives that the inward-oriented strategies propose the need to build an industrial model wherein final, intermediate and capital goods production are properly included. These strategies also specify an important role for the State, often even assigning it entrepreneurial production activities.

In general, these strategies are based on the different role which industry must play with respect to development in the Third World in comparison with the developed economies. Thus, industry is often seen as a stimulus for agriculture and other primary sectors, perhaps as a first step towards more advanced stages in the future. In accordance with this concept, traditional means of measuring the degree of industrialization of developing countries are usually considered to be useless; rather, it should be evaluated by the degree to which natural resources are processed in industry.

Moreover, the various versions do not necessarily propose delinking from the exterior, since they are often proposed in connexion with *ad hoc* means of international integration; however, they are somewhat selective with respect to external connexions, with the aim of safeguarding important objectives such as those involving technological patterns, employment and consumption, or with regard to goals like decreasing the influence of the centres, which has largely characterized the industrialization of the periphery, and specifically of Latin America.

Thus, these currents of thought are less concerned, for example, with disparate industrial growth or asymmetrical trade than with the domestic dynamism and social problems which go beyond simple employment.

One of the most refined expressions of these positions is the 'endogenous' industrialization strategy proposed by UNIDO for the Third World,<sup>30</sup> "which would anticipate the population's needs in general and seek to tailor the industrial production structure to produce goods to fulfil these needs... By definition, the dynamics of growth would come from within the country, calling for a much greater emphasis on self-help or self-reliance. In carrying out this strategy, income would also be generated directly in the hands of the rural and urban poor to help them to satisfy their minimum needs for food, clothing, shelter, medical care, education and transportation. Projects would stress a low

<sup>30</sup>UNIDO, *Industry 2000 - New Perspectives*, United Nations, New York, 1979, pp. 77-79.

capital-labour ratio, use less energy and encourage greater use of local skills, entrepreneurial resources, materials, capital goods and technology ... The strategy would involve an expanded role for small and medium industry... [and] a symbiotic interaction between farms and industrial enterprises at the rural level leading to greater equality in the rural-urban terms of trade... [It] would call for a positive economic role for the government, particularly through the creation of enterprises producing not only industrial, but also public goods... The endogenous industrialization strategy is not to be equated with a closed door policy or autarky. The exchange of goods and services internationally is assumed to constitute an important element in the process of development... although care would be given to fitting the flows of finance, technology, and imported materials and components to the productive structure deemed most suited for furthering the social objectives of the developing countries. Within this strategy based on human needs, stress is placed on the role of industrial development in alleviating the conditions of poverty”.

Clearly the most definitely or explicitly inward-oriented strategies are not only different from those found in the previous scenarios with respect to external relations, industry's connexion with the primary sectors or social priorities: they also include easily visualized and distinctive policies. They differ least, perhaps, from the position oriented towards the norm, which is most exacting with regard to indigenous and collective efforts, thus implying a certain selective 'delinking' and the limiting of non-essential consumption needs within the framework of fairer distribution policies. They are also fairly close to the position based on the ideas being discussed regarding the new International Development Strategy. But they are very far removed from

the position which depends upon the industrial possibilities involved in the trends towards world economic restructuring, and even more so from the trend to economic openness as described earlier. Inward-oriented strategies are at one political extreme, and at the other is openness, defined by the free play of market forces.

It is curious to note that a number of representatives of developed countries have expressed enthusiasm for inward-oriented strategies. This may perhaps be explained by a certain desire to alleviate the constant pressures from the periphery for co-operation. Enthusiasm is also being expressed for indigenous and collective efforts involving integrationist ideas, perhaps for the same reason. Such enthusiasm, however, is inconsistent with the political stances of the developed market economies and their frequent recommendations regarding economic openness, which in turn are not consistent with their own increasingly protectionist strategies.

At the same time, however, inward-oriented strategies frequently also take account of the advantages of full incorporation into the world economy and the benefits to be provided by international economic restructuring, either that which is tending to be implemented or that which the countries are trying to negotiate to further the development and industrialization of the Third World. They thus draw upon elements contained in other schemes, as is very apparent in the case of UNIDO's endogenous strategy, which fits in quite explicitly with the ideas forming the New International Economic Order, and which proposes concerted industrial redeployment. In other cases, industrial redeployment is viewed only as a result of the attempt by transnational corporations to reap greater profits in an atmosphere of liberalized international trade.

## Poverty in Latin America

### A review of concepts and data

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The eradication of poverty has always been one of the main objectives of social reformers, and sometimes this moral concern has made it also the object of empirical investigation by social scientists. This convergence has again occurred in recent years, and has resulted in a flourishing literature both within and outside Latin America. In the first part of his article, the author reviews the most important elements of that literature, laying special emphasis on the writings of the advocates of 'another development', 'redistribution with growth' and 'the satisfaction of basic needs'.

On this basis, he defines the concepts of absolute and relative poverty, justifies his analysis and, following a detailed review of the existing evidence, presents an estimate of the present levels of both types of poverty and recent changes in them in some Latin American countries. The data which he takes into consideration refer primarily to income distribution and consumption, but his approach is rounded by consideration of data on access to public services and on underemployment.

This examination of the evidence leads the author to a number of important conclusions, chief among which are those shedding light on some moot aspects of the distributive consequences of the prevailing style of development. On the one hand in most of the countries examined there has been an improvement in the absolute levels of consumption of the poor strata, at least during the periods under consideration, when the economic growth rate was also considerable. On the other, as a rule the rise in per capita income did not reduce the relative inequality between strata but rather led to the social stratification being reproduced on a dynamic basis. In these circumstances, while the eradication of absolute poverty may be looked for in some of the countries studied, in all of them relative poverty remains, and tends to be the breeding ground of serious conflicts.

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## I

### Poverty, growth and basic needs in different value systems

Any feasible estimation of the magnitude of poverty must recognize a set of conceptual and methodological limitations.

As the concept of poverty does not exactly fit into any significant body of theory it must be admitted to be an essentially normative concept. The norms on what are basic needs and what are suitable levels of satisfaction, whereby the distinction may be drawn between those considered poor and those who are not viewed as being in this situation in a given society at a specific time, are intimately linked with a value system to which the policies chosen for combating poverty and the judgements concerning their viability also belong. In the final analysis, these value systems rest upon a moral and political judgement regarding the existing social order and the way in which society should be organized. There is no definition of poverty that is neutral in this respect.

Conservative value systems tend to establish poverty norms which are sufficiently low to minimize pressure on total resources and on the social change needed to eliminate poverty. In this way they profit from the present lack of theoretical precision of the concept of poverty to keep it as a statistical aggregate which is viewed as the result of the accumulation of the effects of (avowedly stubborn) imperfections in the functioning of a socio-economic system and style of development which are regarded as basically satisfactory or at least the best available for the time being. From this standpoint, what is normatively undesirable is not general inequality in the enjoyment of social goods but rather its more extreme consequences in terms of material deprivation, and consequently it is only the latter which must be tackled through specific policies.

At the other extreme, the contemporary renovative utopias advocating 'another development' (Hammarskjöld Report, 1975; Fundación Bariloche, 1976; Nerfin (ed.), 1977) are based on an egalitarian and participatory value

system which sets the satisfaction of human needs, both material and psychological and political, at the centre of the development process and views the satisfaction of basic needs as a particularly pressing need. It considers that the way in which world-wide industrial civilization currently functions exploits both mankind and nature and that the deprivation from which much of the world's population suffers from the standpoint of basic needs is inextricably bound up with the specific orientation of technical development, the power structure and the resulting distribution of resources which are inherent in this form of industrial civilization and the life style it projects. It calls into question the very ability of industrial civilization on its present course—even beyond the social and economic system, in some formulations—to overcome its own crises by respecting ecological limits, to eliminate poverty and to ensure the full development of human beings. Consequently, it advocates the reorientation of development towards human needs, with the concomitant reorganization of values, social relationships and individual behaviour and attitudes, accepting all necessary changes in the ownership or control of the means of production, in the production, trade or finance structure, in the structure and exercise of power and in the international economic order (Hammarskjöld Report, 1975).

The concept of poverty, in this context, corresponds to non-satisfaction of a set of inter-related basic needs which prevents people from proceeding along the path towards full development and constitutes one of the dimensions of the alienation that thwarts their full development in the present form of industrial civilization. Aside from other considerations, this approach might succeed in incorporating the concept of poverty into a theory of needs, the formulation of which is yet in its first faltering stages.<sup>1</sup> The normative rejection of the existing order, however, does not make it any less urgent, for some proponents of 'another development', to set the 'logic of needs' at the centre of the development process, at least at

the technical level; they therefore recommend that the growth of the product should be supplemented by other indicators which take into account progress in the various components of the standard of living and, particularly, poverty lines which make it possible to identify the poorest groups and their characteristics and needs, calculated on the basis of a normative minimum standard of living. Nor should it hinder the immediate implementation of programmes to bring such groups above the poverty line (Hammarskjöld Report, 1975).

This reasoning also underlies a number of important recent proposals (ILO, 1972; Chenery *et al.*, 1974; RIO, 1976; ILO, 1976) which coincide in placing the satisfaction of basic needs at the heart of development objectives and in arguing the need to combine redistribution with growth in development strategies, although they differ in their value connotations.

In the elaboration of an analytical framework for the design of strategies of redistribution with growth (ILO, 1972; Chenery *et al.*, 1974), an attempt has been made to single out strategy approaches which could serve to improve the situation of the poor in the developing countries, with the identification of four possible components: maximization of growth of the product; reorientation of investment towards poor groups (education, access to credit, infrastructure and so forth); redistribution of income or consumption; and redistribution of wealth. The options in terms of policies and socio-economic change are left open, and the choice and specific combination of the components in the strategy of redistribution with growth depends on the country's socio-economic structure and the priority it attaches to the war on poverty (Jolly, 1976). It has been argued that a strategy of redistribution with growth, in this framework, is not necessarily 'incrementalist' or evolutionary; that the elements taken into consideration are to be found, up to a point, in both reformist and radical approaches, and in both capitalist and socialist situations, as they form—at a high level of aggregation—the field of essential economic alternatives (Jolly, 1976). The difference, at this level of abstraction, is said to lie in the extent and relative importance with which

<sup>1</sup>See, for example, the discussions on research into human needs in UNESCO (1976), Mallman (1977) and CLAEH (1979).

each of the four essential elements is adopted and implemented. In any event, it is recognized that there is little likelihood of implementing comprehensive redistribution policies based on all the elements considered, and that this depends on the emergence of a coalition of dominant interests which perceives the advantages of such a strategy more forcefully than the resistance generated by the losses accruing to some members of the coalition (Bell, 1974).

The value context for the redistribution with growth approach nevertheless remains the utilitarian one of economic theory, while the strategy proposals focussed on basic needs (ILO, 1976; RIO, 1976; Streeten and Burki, 1978) are based, explicitly or implicitly, on the overriding right of every human being to a modicum of social goods. Some of these formulations resemble the postulates of 'another development', agreeing that the final purpose of development should be not merely to eradicate physical poverty but also to provide all people with the opportunity for their full development (Streeten and Burki, 1978). But most of the proponents of the basic needs approach agree at least on some essential points: first, that basic needs should be the central objective of the development strategy; second, that while growth is not in question and is viewed as a requisite for attaining the foregoing objective, on the other hand the content of growth is questioned; third, that the objective of satisfying basic needs is particularly pressing for the poorest nations; fourth, that that objective is paramount but not exclusive, and fifth, that political decisions and institutional reforms are essential for the implementation of such a strategy (U1 Haq, 1977). This minimum formulation of the basic needs strategies also seeks to leave open the possible options in terms of policies and institutional changes. Thus, it would allow for a variety of value systems with respect to the prevailing socio-economic order, but it cannot avoid the thought that if development is really to be re-oriented towards basic needs, substantial changes must take place in that order, and most of the advocates of this approach show a tacit confidence that acceptance of the basic needs objective will help to induce such changes.

In its successive approaches to the reorientation of Latin American development CEPAL anticipated by several years the recognition—now increasingly widespread in international circles—that the trickle-down effects of growth do not suffice to ensure a significant decline in poverty within a morally acceptable timespan. Particularly from the 1960s onwards, attention began to be drawn to the need to include the imperative of improving the situation of low income groups as an explicit, primordial objective in any development strategy. Prebisch (1963) interpreted the slow growth in per capita income and the low living standards of half the population of the region as representing the insufficient dynamism of Latin American development. His appraisal was not merely normative; he saw in the regressive distribution of income and the ensuing social structure a serious hindrance to the technical progress and capital accumulation needed to step up growth and at the same time implement a redistributive policy with regard to consumption.

Pinto (1965) stressed the concentrative and exclusive nature of the Latin American style of development, as a result of the concentration of technical progress in the modern sector with a limited capacity to absorb manpower and the insufficient spillover towards the more backward activities. Ending this contrast between growth and poverty appeared to be a moral and political imperative; the only obstacle to be seen in the functioning of economies in such a style was the possible weakening of the growth stimuli at work in the past. Consequently, the strategy he prescribed consisted in the creation of a trend towards the gradual remedying of the 'harmful' effects which perpetuate poverty, by means of prices and incomes policies, fiscal redistribution and a public investment policy favouring the spread of technical progress towards the more backward sectors. In a more recent work, Pinto and Di Filippo (1979) placed greater emphasis on the fact that the concentration of technical progress, income inequalities and the composition of consumption and investment characteristic of the Latin American style of development are mutually reinforcing and tend to perpetuate the poverty which is the consequence of this structural background. Although they admit the region's

basic dependence in the incorporation of modern technology, they point out the need to change the orientation of development in terms of the composition of the supply of goods and of the groups having access to them, through the use of the surplus generated in the modern sector.

Prebisch (1976, 1980) sees the causes of poverty in the contradictory functioning of Latin American capitalism. On the one hand, the technical progress taking place through the penetration from the centres of technology which is increasingly capital-intensive and productive provides a significant capital accumulation potential. On the other hand, however, the appropriation of the increments in productivity by the upper strata, the transnational enterprises and the State, aggravated by the distributive struggle, leads to resources being withdrawn from accumulation and an allocation of investment which fails to maximize the creation of jobs with higher levels of productivity. In order to remove these two obstacles and gradually eliminate underemployment, the principal cause of poverty, he proposes changing the forms of appropriation and allocation of the surplus, which constitutes the potential for accumulation.

These proposals by CEPAL economists may be placed within the broader framework of the strategies of redistribution with growth. While they share the concerns of the advocates of 'another development' as regards the imitative aspects of the peripheral style of development, and point out the essential contradiction between those aspects and the objective of eradicating poverty and satisfying basic needs, they assume that the technical alternatives and thus the content and orientation of growth will continue to depend basically on the present style of industrial civilization; they seek to eradicate poverty in the periphery through systems for redistributing resources, ranging from fiscal redistribution and the management of prices of factors and products to reforms in the ownership of the means of production or the appropriation of income. However, they fail to incorporate in an articulated manner the proposals in favour of 'another development' based on a substantial reorientation of the material content of growth, technical development and life styles;<sup>2</sup> nor is it clear to what extent the redistributive strategies will suffice to prevent development from continuing to orient itself towards producing "more of the same".<sup>3</sup>

## II

### Poverty, basic needs and life styles

Being essentially normative, the concepts of poverty and of basic needs are relative; whatever the concrete norms used to define deprivation, they always relate to a specific social context and refer to the scale of values associated with a given life style.

There is, as already recognized by Marx (1887), a historical element in the content of basic needs. A number of studies (Lamale, 1958, and Franklin, 1967) have shown how the scope of the concept in the industrial societies of the West has varied in line with economic development, changes in societal values and the consequent transformation of the functions of the State. Thus, if a revolution of Copernican dimensions were to take place in the values of

the post-industrial society, as advocated by the ideologies of 'another development', setting basic needs at the centre of the development process, the profound changes ensuing in life styles would radically alter the reference context of basic needs and poverty.

In addition, in present societies the feelings of relative deprivation and the be-

<sup>2</sup>It should be pointed out, however, that some CEPAL sociologists (Wolfe, 1976 and 1977; Graciarena, 1979) have been more closely identified with the ideas of 'another development', although more on the level of values than of strategy.

<sup>3</sup>Cardoso (1980) presents a lucid examination of the orientations of Latin American thinking on development in a broader ideological framework.

haviour to which they give rise spring from a comparison being made between one's own situation and that of some reference group (Merton, 1957; Runciman, 1966) which is therefore taken as the norm. But even the objective conditions of deprivation, however they are determined, refer to the predominant life style in each society. As Townsend (1974) pointed out, the measurement of poverty through an objective evaluation of needs (although not without value judgments) involves, firstly, a measurement of all the types of resources which determine standards of living; and secondly, a definition of the life style generally shared or approved by the society, whose customs, activities, diet and, in general, patterns of wellbeing the poor households cannot share to any significant degree.

Hence, the definition of poverty must be specific to each society. At the same time, however, in the present world this specificity cannot be interpreted as amounting to independence; the rapid process of acculturation occurring in ever wider areas of the Third World implies that the life style of the industrial society is tending to become dominant, at least in terms of its capacity to generate aspirations and norms, although not so much in terms of its material underpinning. This is reflected in the growing acceptance of the universality of the concept of basic needs (ILO, 1976) and sets the scene for greater tension between the norms or standards of living and the resources available in the developing countries. This is also why it is preferable to formulate norms in relation to the dominant life style at the national level rather than to the 'generally shared' style, a notion which is more applicable to the developed societies. In societies like the Latin American ones, which function with a considerable degree of cultural, political, economic and technological dependence, the dominant life style which orients their development and generates aspirations in almost all social strata is that of the industrial societies, transplanted and adopted by the apex of the local social pyramid. Social inequalities in access to scarce and concentrated resources, however, prevent this life style from being generally shared by the majority of the country's population, whose values and customs have in any event been

affected by the demonstration effect of the style.

Furthermore, it is necessary to recognize that there is an irreducible core of *absolute* deprivation in our idea of poverty which translates reports of starvation, malnutritions and visible hardship into a diagnosis of poverty without having to ascertain first the relative picture. The relative deprivation approach supplements rather than competes with this concern over absolute dispossession (Sen, 1978, p. 11). The absolute norm which we use to define this irreducible core, whatever the national situation which forms its context, stems from our present notion of human dignity and of the universality we confer on basic human rights, the fulfilment of which should not depend on the local scarcity of resources, nor on the resignation culturally built into a society over long centuries of poverty and oppression.

Even these absolute subsistence minima, however, are conditioned by the social and cultural context. Even nutritional needs, for which there is more solid scientific evidence than for other types of need, are to some extent influenced by that context. This is all the more true of the minima for adequate psychological and physical functioning, and *a fortiori* of the minima required for participating in a specific life style. The weight of the social and cultural context increases as one rises in the ranking of needs, even within the sphere of basic needs. Even if poverty in a given society at a specific time is defined in absolute terms, the norms used must refer to the dominant life style.

What then is the difference between the definitions in absolute terms and those in relative terms? Both types express attempts (arbitrary and imperfect, perhaps) to form a synthesis of minimum welfare norms in the form of poverty lines with which to identify situations of deprivation with respect to the dominant life styles. The definitions in absolute terms proceed by enumerating needs, in each case establishing deprivation in terms of that life style; they are absolute with respect to the availability of resources and the prevailing inequalities, but should not disguise the relative context of the concept of poverty,

with respect to the dominant life style. The definitions of poverty which relate it to the average (income, consumption, resources, etc.) in the economy assume that that average represents the economic level which corresponds to the needs of the dominant life style and that the fraction (a half, a third and so forth) of the average chosen as the poverty line corresponds to the critical zone, below which it is impossible to play a meaningful part in that life style; thus poverty is also related to the average availability of resources in the society.<sup>4</sup> However, the fact remains that the determination of those lines is based, in the last analysis, on an appreciation of acceptable minimum standards of living, in terms of needs—in other words, an ‘absolute’ criterion—or of a norm regarding the acceptable level of inequality.<sup>5</sup>

The two kinds of definitions are complementary inasmuch as they shed light on different dimensions of poverty situations. The definitions in absolute terms address themselves to the non-satisfaction of basic needs, over and above the relative picture. Definitions in relative terms stress inequalities between the base and the remainder of the social pyramid, and in doing so tend towards a potentially fruitful analysis in terms of relative deprivation, thus opening the way for relating poverty to the broader problem of inequality.

The interaction between the two dimensions of poverty in the course of development is particularly important. In societies where most of the population is critically deprived in terms of the satisfaction of their basic needs, the ‘moral scandal’ expressed by these situations, and their undeniable effects which lead to a

vicious circle of poverty and underdevelopment, may make it irrelevant to refer to the relative dimensions of poverty, even though the unfair distributive structure is closely linked with that vicious circle. In situations where the level of economic development attained and the growth rate suggest that even with the prevailing regressive distribution of income the absolute dimension of poverty might be reduced, the relative dimension becomes significant, as it situates poverty more directly in the context of social inequalities, focussing on the gap existing between the life style projected by the pattern of development and the impossibility for the lower strata effectively to share in it.

However the poverty norms are applied, in absolute or relative terms, they cannot be immutable over time. All that has already been said about the relativity of the concept of poverty and the need to refer the definitions to the dominant life style implies that poverty norms must be dynamic. As society becomes richer, the absolute levels of the former norms become obsolete; economic development changes the availability of the different kinds of goods and also the structure of needs; and at the same time life styles change too (Townsend, 1974). In our societies, there is also the influence of the changes taking place in the life styles of the industrial societies.

To put this another way, even poverty lines defined in absolute terms must have some positive income elasticity, over time and in the course of development. An unchanging definition of absolute poverty would mean that the corresponding poverty line must be unaffected by the rise in average real income in the society in question; its income elasticity would be zero. At the other extreme, any definition of poverty in relative terms which directly links the poverty line with the average income of society as a whole implies that the line varies in the same proportion as that average: in this case, the income elasticity of the poverty line would be one.

The definitions of poverty in absolute terms have varied in the course of the development of the industrial societies in line with economic growth and social progress. In suc-

<sup>4</sup>These relative definitions of poverty do not prejudice the size of the problem. Definitions of the type “the x per cent of households with lower incomes”, on the other hand do prejudice the extent of poverty and imply that it will always exist, as they are not based on criteria of relative deprivation which take into account the distance between the bottom section of the pyramid and the average situation. Rather than definitions of poverty, they are an attitude to the problem, which they approach from the standpoint of inequality at the very bottom of the income scale.

<sup>5</sup>This is clear in works such as those of Sawyer (1975), who chooses the fractions of average per capita disposable income to be used as ‘standardized’ relative poverty lines applicable to some developed countries, on the basis of the official poverty lines established in those countries, most of which have been fixed according to absolute criteria.

cessive evaluations of poverty in York, Rowntree<sup>6</sup> defined the minimum needs of households in 1899, 1936 and 1950, using the same procedure, which has become classic in the tracing of absolute poverty lines, and criteria designed to incorporate the determinants of the context of each period. If the real value of those budgets is compared<sup>7</sup> and related to the rise in real per capita income in Great Britain during those periods, it may be seen that Rowntree's norms have an income elasticity of 0.5 between 1899 and 1936 and of 0.8 between 1899 and 1950. The poverty lines used by official bodies in the United States at different periods since the war have also risen in real terms, with income elasticities ranging from 0.7 to 1.5, reflecting the change in societal values and official welfare criteria.<sup>8</sup> Since 1964 however, the United States Government has adopted the criterion of keeping the real value of the official poverty lines constant, bringing

them up to date solely in terms of changes in consumer prices (Department of Commerce, 1977). This practice has been criticized (Ornati, 1966; Thurow, 1969) on the grounds that while it is acceptable for short-term studies and for programmatic purposes, it is not acceptable for monitoring the evolution of poverty over longer periods. In fact, various researchers have observed that the minimum consumption budgets in the United States have risen in real value since the beginning of the century with an elasticity of between 0.5 and 0.8 with respect to the increases in real per capita income.<sup>9</sup> From another standpoint, an analysis of the income which people considered to be the acceptable minimum through successive opinion surveys in the United States between 1957 and 1971 indicates that the average social norms have risen with an elasticity of about 0.6 with respect to average per capita income (Kilpatrick, 1973).

### III

## The dimensions of poverty in Latin America

### 1. *The magnitude of absolute poverty*

The estimates of the magnitude of poverty in Latin America in 1970 presented here represent an attempt to measure the problem of the absolute magnitude of poverty on comparative bases.<sup>10</sup> They are based on cut-offs in the distributions of per capita consumption for the main countries of the region, through poverty lines representing minimum acceptable budgets for private consumption.

These poverty lines reflect a deliberately

normative definition of the absolute dimension of poverty. They express synthetically a judgment as to what are the minimum acceptable levels of satisfaction of a set of basic needs, below which situations of real deprivation exist which are considered not merely morally intolerable but also seriously degrading in human terms.

What are the grounds for this judgment? Firstly, authoritative assessments, and secondly, the real behaviour of low-income households in the face of the constraints and stimuli of the style of development prevailing in the countries of Latin America and the life styles it projects.

The starting point of the method chosen for

<sup>6</sup>Rowntree (1901); Rowntree (1973); Rowntree and Lavers (1951).

<sup>7</sup>See Jackson (1972).

<sup>8</sup>The poverty lines used by the Joint Economic Committee for 1949 and 1962 have an income elasticity of 0.66; those used by the Bureau of Labour Statistics for 1947 and 1959 have an income elasticity of 1.19; a comparison of the real value of those used by the Council of Economic Advisers for 1951 and 1963 gives an income elasticity of 1.5. (The elasticities have been calculated on the basis of the real values of the corresponding poverty lines indicated by Miller (1964)).

<sup>9</sup>The elasticities calculated by Kilpatrick (1973) are: 0.84 for the budgets analysed by Smolensky (1965) covering the period 1903-1959; 0.75 for the annual observations of Ornati (1966) between 1905 and 1960; and 0.57 for the observations analysed by Mack (Miller 1965) between 1929 and 1960.

<sup>10</sup>Cf. Altimir (1979).

drawing the poverty lines is food. In establishing nutritional needs, minimum standards exist established by authoritative judgments based on present knowledge, which take into account differences relating to sex, age and some environmental factors (FAO/WHO, 1973). The average minimum needs of nutrients calculated for each country were translated into normative baskets of country-specific minimum-cost foods, taking into account both the real availability of each type of food and the food habits of low-income groups, and choosing those foods which could satisfy each need at the lowest cost per nutrient at existing prices. The minimum-cost baskets were valued at capital-city prices, and the resulting minimum per capita food budgets were adjusted applying estimated price differentials to obtain budgets which were approximately applicable to the entire urban population and to the national population.

To draw poverty lines based on food means normatively assuming some relationship between spending on food and spending on the satisfaction of the basic needs currently covered by private consumption in these societies. For this purpose, an analysis was made of the data available on the proportion of expenditure on food for those household groups whose real spending on food was somewhat above the minimum food budget established, and it was found that the urban household groups thus defined devoted between 40% and 50% of their total consumption expenditure to food. On this basis, poverty lines were drawn for the urban areas in all the countries considered,<sup>11</sup> at twice the amount of the minimum food budget. In tracing poverty lines for the rural areas, the limited amount of similar data available on consumption patterns of rural

households led to the decision to consider non-food private consumption as amounting to 75% of the corresponding minimum food budgets.

These norms assume that the households which are above the minimum food expenditure threshold are likewise above the thresholds for other basic needs covered by private consumption. This consumption was tested as far as possible for expenditure on housing and supplementary expenditure required to gain access to free public services. Although it was found that the budgets established could cover the annual payment or rent for adequate minimum housing in accordance with conventional housing standards and on very favourable terms regarding cost and financing, the impression remains that housing penury is more generalized than poverty as defined by a minimum purchasing power, on account of the limited supply of such housing, of accessible urban land and of resources on suitable terms.

In sum, these poverty lines in terms of disposable income for private consumption, based on food needs, combine normative minimum-cost diets—which do not allow for inefficiency in the allocation of expenditure on food as observed in the diet actually consumed by households—with the latter's preferences with regard to food and other expenditures in response to the prevailing life style.

Table 1 gives the poverty lines estimated according to these procedures, at 1970 prices in United States dollars; it also includes 'destitution lines' corresponding to the minimum food budgets, as the households whose total purchasing power is below even that amount very probably suffer from severe nutrient deficits.<sup>12</sup> The minimum food budgets estimated for each country as a whole range from 75 to 130 dollars at 1970 prices per person per year; the corresponding poverty lines stood at between 150 and 250 dollars of 1970 of per capita annual household consumption.<sup>13</sup>

<sup>11</sup>The uniform application of this norm to all the countries of the region may imply a certain degree of underestimation of poverty in the relatively more developed countries, where the propensity to consume other goods on the part of the corresponding household groups is somewhat higher than the food coefficient. This is one of the specific additional circumstances which should be taken into account in any national evaluation of poverty. However, in our regional evaluation this differentiation could have been introduced only for some countries, and furthermore would not have been in line with the degree of accuracy achieved in other aspects of the estimates.

<sup>12</sup>Even the standard for "adequate physiological subsistence" must be above these "destitution lines", as it must include some capacity for additional purchases besides those involved in the minimum food budget, to satisfy a modicum of other needs also required for healthy physiological subsistence.

<sup>13</sup>These levels are somewhat higher than those used in some worldwide studies (World Bank, 1975; ILO, 1976) to

Table 1  
 POVERTY AND DESTITUTION LINES  
 (Annual per capita budgets in 1970 dollars<sup>a</sup>)

Country	Poverty lines				Destitution lines			
	Metro-politan area	Urban average	Rural	National average	Metro-politan area	Urban average	Rural	National average
Argentina	249	249	164	231	124	124	93	117
Brazil	197	197	130	162	98	98	74	85
Colombia	176	170	116	147	88	85	66	77
Costa Rica	196	190	128	152	98	95	73	82
Chile	256	249	168	225	128	125	96	116
Ecuador	220	213	145	173	110	106	83	92
Honduras	190	183	125	142	95	92	71	77
Mexico	185	179	122	157	93	89	70	82
Panama	254	...	161 <sup>b</sup>	206	127	...	95 <sup>b</sup>	110
Peru	181	176	119	148	91	88	68	78
Uruguay	234	234	153	214	117	117	88	110
Venezuela	287	277	189	252	144	139	108	130

Source: O. Altimir (1979), table 11.

<sup>a</sup>Using average import exchange rates in 1970.

<sup>b</sup>Rest of the country.

Table 2 shows the estimates obtained of the incidence of poverty in eleven Latin American countries in about 1970, according to the proportion of households beneath the corresponding poverty lines, for each country as a whole, for urban areas and, residually, for rural areas.

In some countries (Brazil, Colombia, Honduras), urban poverty affected more than a third of urban households, as against between 20% and 30% of households in Peru, Mexico and Venezuela, roughly 15% in Costa Rica and Chile, and less than 10% in Argentina and Uruguay. The magnitude of poverty in rural areas, according to these estimates, is in no case less than 20% and in some countries as high as over 60% of rural households.<sup>14</sup> Consequently,

obtain regional poverty estimates. The differences are largely attributable to the fact that the poverty lines estimated by CEPAL are explicitly normative and more specific with respect to regional conditions.

<sup>14</sup>It should be pointed out that these results may to some extent overestimate the incidence of rural poverty, as

the picture of the aggregate incidence of poverty at the national level is more uniform than the picture of urban poverty; if Argentina, and perhaps Uruguay, are excluded, no less than 20% of households were poor in countries such as Chile, Costa Rica or Venezuela, a third in Mexico, and over 40% in Brazil, Colombia and Peru, reaching two-thirds of the population in countries such as Honduras.

the flaws in the measurement of food produced for consumption in the home in some of the national income distributions used have not been entirely remedied by the corrections to those distributions (see O. Altimir, *op. cit.*). It could also be argued that the poverty lines established for rural areas are based, despite the adjustments made, on norms biased by urban conditions, but to this it may be replied that the dominant life style, in evidence in the cities through the wealthy strata and urban 'attractions', is also the benchmark for the aspirations of the majority of the rural population, as is corroborated by the scale of rural-urban migrations. In any event, these estimations of the incidence of rural poverty seem on first sight consistent, although naturally not coincident, with the CIDA estimates (1971) of stratification in the agricultural sector in various countries in about 1960, according to which between 60% and 90% of agricultural households consisted of smallholders and landless workers.

Table 2  
ESTIMATES OF POVERTY IN LATIN AMERICAN COUNTRIES AROUND 1970

Country	Percentage of households below the poverty line			Poverty gap as a percentage of household income	Percentage of households below the destitution line		
	Urban	Rural	National	National	Urban	Rural	National
Argentina	5	19	8	0.6	1	1	1
Brazil	35	73	49	7.0	15	42	25
Colombia	38	54	45	8.0	14	23	18
Costa Rica	15	30	24	3.6	5	7	6
Chile	12	25	17	2.1	3	11	6
Honduras	40	75	65	17.4	15	57	45
Mexico	20	49	34	4.1	6	18	12
Peru	28	68	50	11.8	8	39	25
Panama	...	...	39	8.1	...	...	25
Uruguay	10	...	...	...	4	...	...
Venezuela	20	36	25	2.5	6	19	10
Latin America	26	62	40	...	10	34	19

Source: O. Altimir (1979), tables 12 and 14.

The above estimates of the magnitude of poverty in the main countries of the region served as a basis for the conclusion that at the beginning of the 1970s, 40% of Latin American households were poor, with an incidence of poverty of 26% in urban areas and 60% in rural areas. These estimates, which resemble those obtained by the ILO (1976), mean that in Latin America there were 110 million poor, almost 70 million of them in rural areas.

In addition, it was estimated that half the Latin American poor (roughly 20% of the total population) could be considered destitute. Table 2 indicates, it is true, that in a good number of countries a third of the poor population were in that situation, but even though the estimates of destitution in rural areas (and all the more so those of rural poverty) are subject to serious reservations, they do at least indicate that in some cases the scale of the problem is frankly appalling, affecting perhaps more than half the rural poor in Latin America. In urban areas, where destitution is a more clear-cut concept, generally speaking, one-third of the poor households were below the destitution lines. These estimates of the incidence of poverty measure the proportion of the population

in such a situation, but do not indicate to what extent the income of the poor falls below the normative poverty line. Consequently, the attempt at measuring the magnitude of poverty to which we referred (Altimir, 1979) included an estimate of these 'poverty gaps' which represent the total income or consumption shortfall from the poverty line of the poor households as a whole. Table 2 shows those gaps, estimated at the national level, as a fraction of total household income.<sup>15</sup> In the countries where absolute poverty affected less than one-third of households, the total poverty gap represented less than 3% of total household income; in Brazil and Colombia it amounted to 7% and 8% of that income, in Peru to over 10%, and in countries such as Honduras to over 17% of total household income.

This indicator, based on the concept of the poverty gap, gives a comparative idea of the degree of difficulty inherent in the challenge of

<sup>15</sup>The expression of the poverty gap as a fraction of the gross domestic product, which is usually used although conceptually less meaningful, gives lower percentages (by roughly a quarter in most of the countries considered) than those shown in table 2.

eradicating poverty, in terms of social resources. It must be interpreted, however, with extreme caution. It would be naive to consider the percentages in table 2 as an indication of the size of the income transfers required to eliminate absolute poverty. In the first place, to achieve that objective in a permanent manner might require, as was pointed out above, a profound reorientation of the style of development, with institutional reforms and changes in the structures of production and prices which would bring about major changes in the entire distributional structure and not only in the respective income shares of the poor and of the rest of the population. Secondly, the solution of the problem of poverty involves not only providing the poor with larger proportions of current income but also changing the content of the social product in terms of goods, as well as the values guiding consumption. Finally, even if this expression of the poverty gap in terms of income shares is considered an indication of the magnitude of income redistribution which would have to be achieved by setting in motion processes of change, it cannot be taken as a measure of the social tensions and political resistance those processes would generate, which depend not only on the extent of the redistribution but also, and most particularly, on the cluster of policies, institutional reforms and alliances through which redistribution is undertaken.

Nevertheless, the relative magnitudes of the estimated poverty gaps indicate that the objective of eliminating absolute poverty is feasible, at least in terms of the proportion of social resources involved in most of the countries of the region. This represents a difference, and one full of implications, with respect to the situations of mass poverty in other regions of the Third World.

## 2. *Access to public services*

As the poverty lines established represent minimum private consumption budgets, they do not cover the components of basic needs which, in the institutional systems prevailing in the Latin American countries, are primarily met by free or heavily subsidized public services.

A review of the indicators available on the extent of those social services (primary education, health, drinking water and sanitation) in each country only gives an idea of the average probability of access to the service on the part of the population as a whole. In the absence of information on the real access of different social strata to these services<sup>16</sup> it can only be conjectured that the poor have greater difficulty in access to the social services available than the average population.

The indicators in table 3 are illustrative in this sense. The coverage of primary education tends to be high in most countries of the region in terms of the enrolment of the school-age population. However, the population not enrolled, though representing relatively moderate percentages of the total population (from 15% or less in Argentina, Colombia, Costa Rica, Chile and Mexico, to slightly over 30% in Brazil and Honduras) most probably corresponds overwhelmingly to the low-income groups, particularly in rural areas. Furthermore, the use made of educational services cannot be considered satisfactory or consolidated until the basic cycle of primary education has been completed; the rates of retention in school until the last year of the cycle, given in table 3, combined with the enrolment rates, give an idea of real access to educational services. With the sole exception of Costa Rica, the proportions of the population of school age failing to complete the basic educational cycle are high even in Argentina, Chile, Uruguay and Venezuela, while in Brazil, Colombia and Honduras they account for most of this age segment of the population. It may be inferred from this, firstly, that real educational deprivation is considerable in all the countries of the region; secondly, that probably most of the population living in absolute poverty is deprived of access to complete primary education, on account of the very causal factors built into their situation; and thirdly, that for similar reasons educational deprivation affects population strata even above the poverty lines.

<sup>16</sup>A notable exception is the study by Selowsky (1979) on Colombia, whose results broadly confirm the assumptions given here.

Table 3  
LATIN AMERICA: INDICATORS OF ACCESS TO SOCIAL SERVICES AROUND 1970  
(Percentages)

Country	Education		Health	Drinking water	Drainage
	Net primary enrolment rates	Rates of retention to final basic year <sup>b</sup>	Hospital births <sup>e</sup>	Urban population served <sup>g</sup>	Urban population served
Argentina	83	60.9	...	78.0	33
Brazil	69	28.0 <sup>c</sup>	...	77.0	29
Colombia	86	37.0	...	89.0	60
Costa Rica	87	67.9	74.2	100.0	31
Chile	93	57.8	87.2 <sup>f</sup>	94.0	33
Ecuador	78	43.6	22.2	65.0	58
Honduras	68 <sup>a</sup>	...	20.0	97.0	60
Mexico	85	44.6	45.0	73.0	33
Panama	89	72.8	62.8	100.0	70
Peru	78	65.8 <sup>d</sup>	21.0	73.0	48
Uruguay	80 <sup>a</sup>	79.8	...	96.0	55
Venezuela	78	56.7	95.6	88.0	43

Note: Net primary enrolment rates: enrolment of children of legal primary school age as a percentage of all children in that age group.

Retention rates: pupils enrolled in the last year as a proportion of pupils enrolled in the first year of the period under consideration.

<sup>a</sup>1965.

<sup>b</sup>UNESCO: "Wastage in primary education: A statistical study of trends and patterns in repetition and dropout", in *International Conference on Education*, 1979.

<sup>c</sup>Projected from 1973.

<sup>d</sup>Projected from 1975.

<sup>e</sup>PAHO, *Evaluación del plan decenal de salud para las Américas, 1971-1980*, initial evaluation, Mexico City, 1976.

<sup>f</sup>1974.

<sup>g</sup>1973. Urban population in dwellings with a connexion in the house or with easy access to drinking water.

The only indicator available on actual access to health services—the percentage of births taking place in hospital—suggests that only in a few countries with extensive public health systems is it possible for some of the low-income population—primarily urban—to have real access to those services.

The availability of drinking water for the urban population is quite high in almost all the countries in table 3; however, this indicator does not distinguish between types of availability (in the dwelling, outside it, in the neighbourhood); consequently, it is highly probable that a considerable proportion of the poor living in marginal shantytowns lack a suitable supply.

Finally, the proportion of the urban population which does not enjoy drainage services is

very high in almost all the countries, and still considerable even in those with the greatest coverage. Although the lack of drainage systems is a widespread shortcoming of urban infrastructure in rapidly growing areas, and efficient alternative solutions may be found at the individual level, here again it may be assumed that the poor in the marginal shantytowns are most affected by the sanitary consequences arising from the lack of this service.

This separate analysis of the probable degree of deprivation of public services and the extent to which it overlaps with insufficient purchasing power to achieve acceptable levels of private consumption should not obscure the interdependence inherent in the satisfaction of the various basic needs and the way in which the various shortfalls are reciprocally conditioning in the poverty syndrome.

### 3. The relative dimension of poverty

The foregoing measurements of the absolute dimension of poverty adopt the basic needs approach, without reference to the prevailing social inequalities or to the average availability of resources in each economy. Although in defining poverty standards in absolute terms account has been taken, for each country, of habits, behaviour and prices and availability of goods—all factors which reflect the dominant life style—this does not lead to a 'relativization' of poverty lines with respect to the average income in each economy. As pointed out above, the life style which orients the pattern of development and the behaviour of most social groups in the countries of Latino America corresponds increasingly to features acquired, through the mechanisms of the region's cultural, economic and technological dependence, from the life style prevailing in the industrial societies. The latter, however, is underpinned by much higher levels of social productivity. In these circumstances, the average income of the economy does not necessarily correspond to the requirements of that life style.

The comparison of poverty situations with average income has a number of senses, however. Average per capita income represents the real availability of economic resources, irrespective of how they are appropriated or concentrated, as a result of the global productivity attained in each economy. It also represents the living conditions of the upper strata of the local social pyramid: given the prevailing concentration of income in our countries, no less than two-thirds and as much as four-fifths of all households fall below the average income in the distribution.<sup>17</sup> Finally, it presents the income each person would have according to a norm of absolute equality.

The poverty lines in table 1 keep the same relationship as in table 4 with respect to the corresponding averages of per capita personal

disposable income. In some cases (Argentina, Costa Rica, Chile, Mexico and Uruguay) those with an income below one-third of the national average would be in a poverty situation defined in absolute terms; in other cases (Brazil, Panama, Peru, Venezuela) the absolute standard is close to half the per capita average income; while in countries such as Honduras, the poverty line is above two-thirds of the national average. The fact that the poverty lines defined on the basis of a core of basic needs represent such different fractions of per capita average income in each country stems from the differences in the absolute levels of development, household consumption patterns and relative food prices. The conclusion may be drawn that the larger the fraction, the more equitable the income distribution must be for the satisfaction of the population's basic needs; and hence, given the existing inequalities, the greater the relative importance of redistribution as a component of the strategy to be followed to achieve that goal.

Table 4

INDICATORS OF THE RELATIVE DIMENSION OF POVERTY IN LATIN AMERICA AROUND 1970

Country	Ratio of absolute poverty lines <sup>a</sup> to average per capita disposable income	Households whose income is less than half the average income	
		National (percentages)	Urban (percentages)
Argentina	0.28	28	27
Brazil	0.46	54	52
Colombia	0.62	48	43
Costa Rica	0.36	36	34
Chile	0.37	39	38
Honduras	0.68	58	40
Mexico	0.30	48	44
Panama	0.44	47	...
Peru	0.43	48	34
Uruguay	0.31	...	25
Venezuela	0.41	38	37

Source: O. Altimir (1979), table 15.

<sup>a</sup>See table 1.

<sup>17</sup>However, it would be wrong to assume without further analysis that the groups placed at that average income level are effective reference groups—in the sense of the theory of relative deprivation—for those lower down in the pyramid.

An alternative approach to the way in which to define and measure poverty consists,

as mentioned earlier, in the normative selection of the fraction of average income beneath which households are considered poor. To make this choice without regard to needs and without examining feelings of relative deprivation is to postulate, with a considerable degree of arbitrariness, a norm concerning maximum acceptable social inequalities, at least between the bottom of the distribution and the middle and upper strata. To measure poverty according to such a definition has, however, the merit of saying something about the size of those inequalities.

Table 4 shows the percentages of households in each country with a per capita income below half the average for households as a whole. This study was made (Altimir, 1979) by uniformly applying the poverty standard suggested by Atkinson (1975) to the same income distributions as were used for the estimates of absolute poverty presented above. In about 1970, in most countries the relative dimension of poverty thus defined was significantly higher than the absolute dimension (table 2) defined on the basis of needs. Only in some countries where the incidence of absolute poverty is very high does it exceed the relative estimate; in other cases (Brazil, Colombia), the two types of measurement are of a similar order of magnitude, while in other countries, where the absolute dimension of poverty was less severe, it was far exceeded by relative poverty, which had more uniform orders of magnitude: between 28% (Argentina) and 40% (Mexico) of the population.

As a result, the picture of the relative dimension of poverty in Latin America is more uniform than that of its absolute dimension. The differences to be observed among the countries considered in table 4 reflect the differences in the degree of inequality between the base and the rest of the social pyramid: in the countries where overall inequalities are greatest, half the population falls below the chosen relative norm; in others, about one-third of the population is affected, and in two countries (Argentina and Uruguay), a little over a quarter. Some of these differences may be attributed in part to the greater inequality associated with rural underdevelopment. The

inequalities existing in urban areas of the Latin American countries give rise to relative magnitudes of poverty somewhat smaller than those existing at the national level, as may be seen from table 4. On the other hand, however, in almost all cases the proportions of households with an income less than half the urban average are well above those corresponding to the absolute dimension of poverty. Furthermore, as might be expected, the size of the difference between the two estimates is directly related to the level of development attained. Bearing in mind that the drawing of poverty thresholds related to average income is more meaningful for urban areas, given the greater visibility of social inequalities, the problem of poverty may be considered in more dynamic terms.

Although for the purposes of a rather rudimentary preliminary analysis of the problem we have abstracted the absolute and relative dimensions of poverty and handled them as alternative approaches, there can be little doubt that both dimensions affect the real behaviour of low income groups and their social position. The deprivation they suffer in the satisfaction of their basic needs conditions their probabilities of survival, their opportunities and their participation in the economic and social processes. At the same time, moreover, inasmuch as they assess their own situation in the light of the average level of wellbeing achieved by society, their relative deprivation of social goods may determine their behaviour and attitudes towards the rest of society, giving rise to the pathological manifestations which are unquestionably partly responsible for the present concern for poverty.

This interaction between the two dimensions of poverty means that the nature of the problem changes in the course of development, and that it persists beyond what is usually recognized by evaluations at specific points in time. In situations where the extent of poverty in absolute terms is greater than relative poverty, the satisfaction of basic needs is not merely a moral imperative but also a requirement for raising the global productivity of the economy. In the course of development it becomes possible to satisfy basic needs to some extent, although their content changes and the mini-

mum levels rise, but the persistence of an unequal income distribution heightens the importance of the relative aspects of poverty. Where the absolute dimension of poverty is less overwhelming, the relative aspects become more important, and the measurement of poverty in relative terms provides a more suitable assessment of the extent of the problem, which becomes less one of basic

needs than one of social inequalities. In short, inasmuch as economic growth makes it possible to attenuate the more glaring absolute aspects of poverty, given the greater availability of goods, the nature of the problem also changes; consequently, any linear reasoning concerning the more or less automatic trickle-down of income increments and the eradication of poverty must arouse reservations.

## IV

### Recent poverty trends

In a recent study (Piñera, 1979b) it was estimated that between 1960 and 1970 the incidence of absolute poverty in a significant group of six Latin American countries<sup>18</sup> declined from 49% to 39%, with the result that almost 10% of the population ceased to be poor during that period.

These results, however, could lead to erroneous conclusions if a least four kinds of factors which may distort quantitative evaluations of the absolute magnitude of poverty at two different points in time are not taken into consideration. Firstly, there is the lack of comparability of the income distributions used in each country to measure the incidence of poverty in about 1960 and in about 1970. In some cases these distributions were obtained by completely different procedures.<sup>19</sup> In the other countries considered, although the distributions for those periods come from censuses or surveys, they correspond to different concepts of income—and even different units—and are based on data of varying quality, so that it may be assumed that the biases affecting them may be of different size, which would restrict their comparability. Secondly, these quasi-regional

results average out the varying trends which may have taken place in each of the countries concerned, on the basis of different distributive structures, in the framework of different political styles (Graciarena, 1976) and in periods during which growth rates and economic policy orientations in those countries varied considerably. If only for these reasons, it would be rash to draw, without further analysis, general conclusions from them concerning the relationship between poverty trends and growth within the prevailing style of development in Latin America.

It should be stressed, however, that in the estimates with which we are concerned all the countries considered recorded a decline in the incidence of absolute poverty, although to varying degrees.<sup>20</sup> No matter how the scanty evidence available on income distribution in those countries is handled, these trends are confirmed. This is true whether only the relatively more comparable income distributions are used, or whether they are adjusted according to various criteria to correct their biases

<sup>18</sup>These countries—Brazil, Costa Rica, Colombia, Chile, Mexico and Peru—in 1970 accounted for 72% of the population and 67% of the product of the region. The estimates strictly correspond to the situation in those countries in about 1960 and about 1970 (Piñera, *op. cit.*).

<sup>19</sup>Especially in Chile and Peru, where the distributions used for about 1970 come from income surveys, whereas those for earlier periods were put together on the basis of various partial sources of data.

<sup>20</sup>According to those estimates, the percentage of poor households dropped from 66% to 43% in Colombia in the period 1964-1974; from 51% to 20% in Costa Rica between 1961 and 1971; from 36% to 27% in Mexico between 1963 and 1968; from 52% to 44% in Brazil between 1960 and 1970, and from 58% to 52% in Peru between 1961 and 1971 (Piñera, 1979b). The percentages for the incidence of poverty estimated for about 1970 do not coincide with those in table 2 for those countries, because although the same poverty lines were used, they were applied to approximate distributions by levels of per capita disposable income instead of approximate distributions by per capita consumption levels.

towards the underestimation of income, which would improve their comparability to some extent. On the other hand, the limitations of the data do not allow any firm conclusions to be drawn concerning the intensity or pace with which the proportion of households below the poverty line has been decreasing.

In the case of Mexico, the income and expenditure surveys of 1963 and 1968 are essentially comparable; if the original distributions are cut by poverty lines with a real value equivalent to those of table 1, about 14% less households would be in poverty (39% in 1968 as against 53% in 1963). Attempting to correct the underestimation of income in both surveys through one adjustment procedure (Navarrete, 1970), one obtains the poverty trends estimated by Piñera (1979b); if the results are adjusted by an alternative procedure (Altimir, 1979), the percentage of poor households declined by 11% (from 46% in 1963 to 35% in 1968).

The analysis of income distribution trends in Brazil is based on the results of the 1960 and 1970 population censuses, the varying quality of which throws doubt upon their comparability. Cutting the two census distributions with poverty lines of equal value results in 72% of poor households in 1960 and 64% in 1970.<sup>21</sup> However, both distributions heavily underestimate income. The adjustment made by Piñera (1979a) to make average incomes coincide with disposable income in the national accounts is uniform for income levels and leads to the foregoing estimates which indicate an 8% decrease in the number of poor households. If another adjustment criterion is applied to the two census distributions, breaking down the distributions by socio-economic groups and individually adjusting the underestimation of each type of income according to specific hypotheses, poverty measurements are obtained of 61% in 1960 and 55% in 1970, i.e., a drop of the order of 6% in poor households.<sup>22</sup>

<sup>21</sup>A similar percentage is obtained from Langoni (1972) on the basis of the 1970 census results.

<sup>22</sup>Using the results of the PNAD income survey for 1972, which is of higher quality than the census data, the estimate gives 56% of poor households for that year. The adjustments for underestimation—somewhat less arbitrary in this case, on account of the better quality of the basic data—do not significantly alter the estimate.

For Colombia, the most reliable income distributions which can serve as a basis for comparison are the distribution estimated by Berry and Urrutia (1976) for 1964, and the distribution resulting from the DANE income and expenditure survey (1976) for 1971, both for individual recipients, although their comparability is not without limitations. If the two distributions are cut by equivalent poverty lines of real value similar to those in table 1, the proportions of poverty obtained are 55% and 52% respectively, with only a slight decline during the period.

A third type of reservation concerns the procedures used to maintain constant, in these comparisons, the real value of the poverty lines estimated for 1970. For this purpose, the price indexes implicit in the gross domestic product were applied, which reflect the average price change in each country.<sup>23</sup> The question which arises is to what extent the prices paid by the lower income groups change in the same way as those paid by the population as a whole. For instance, food, which weighs more heavily in the budget of poor households, has tended to become more expensive in relation to the other items of the consumer price indexes for the urban areas in most of the countries of the region. The same may have been true of the value of the normative food budgets, although it has not been possible to verify this. To what extent the prices paid by rural households have followed a similar trend is a matter for conjecture. In any event, there are reasons for believing that the real value in 1960 of normative poverty lines for some of the countries considered may have been somewhat lower than estimated, which would mean that in some cases the decline in absolute poverty may have been somewhat less than indicated.

Finally, perhaps the fundamental reservation regarding these results is the use of poverty lines which do not vary over time, instead of redefining them for the past according to contemporary standards. As was indicated above, definitions of poverty cannot be unchanging;

<sup>23</sup>It might have been more appropriate to use consumer price indexes, but this would not have significantly altered the results, given the closeness of the two types of index.

while they seek to grasp objectively the non-satisfaction of basic needs at a given time, the extension of the concept and the norms of minimum satisfaction are conditioned by the dominant life style, which changes with time in the course of development. These considerations, which are obvious for the evaluation of long-term poverty trends, may seem exaggerated when considering the period of one decade. However, not to recognize that many of the changes observed retrospectively in life styles and value systems have been generated gradually over successive decades would be to indulge in historical subjectivism which would rapidly undermine any projection over time of this type of exercise. More specifically, it is impossible to isolate poverty lines from the Engel-type behaviour of the demands of society as a whole within the framework of one general life style, which involves a relative upward shift in the ranking of goods—and also perhaps of needs—as income rises.

To test the sensitivity of the results with respect to the assumption of invariance over time, let us admit for the time being that the change in the contemporary poverty norms in Latin America is represented by poverty lines whose real value rises with an elasticity of 0.5 with respect to the increments in per capita average real income. On this assumption, the incidence of poverty in any event declined somewhat in the 1960s, but only by half the magnitude estimated by Piñera (1979b), as in that case poverty in about 1960 would have extended to roughly 44% of the Latin American population.

Establishing poverty lines which are unchanging in time amounts to postulating that in the final analysis poverty will be eliminated by the effect of growth. For the magnitude of absolute poverty thus defined to continue in the long term as a proportion of total population, while per capita real income in the economy as a whole rises, the distribution of income would have constantly to deteriorate, so that the real income of the poor would remain unchanged; any uniform increases in the real income of the groups below the poverty line would mean that some of them would rise above the line, reducing the global incidence of absolute pover-

ty in that society. Thus Piñera (1979b) estimates that the real value of the poverty gap for the set of six countries which he analyses declined by 9% between 1960 and 1970 and that its relative size shrank from 8% to 4% of the total gross product of these countries. Half that decline is said to be attributable to the rise in the per capita real product and the other half to the rise in the real incomes of the population which in 1960 was below the poverty lines whose real value was equivalent to those of 1970.

Using such a simplified model of the relationship between poverty and growth, and further assuming—as would seem to be substantiated by the fragmentary evidence available—that the income concentration existing at the beginning of the decade of the 1970s has continued without major change, it may be estimated that the incidence of absolute poverty has now fallen to 33% of the Latin American population (Molina and Piñera, 1979). Furthermore, if these income distributions were to persist in the long term, the eradication of mass poverty by the 'trickle-down' effect of the general growth of income would be feasible within one or two generations. If long-term growth of real per capita income occurred at the rates recorded in each country during the period 1974-1979, and poverty norms remained at the real levels established in 1970, Brazil would take another 33 years to reduce the dimension of absolute poverty to 10% of its population, Mexico more than 45 years, and Colombia more than 20 years. On the other hand, if it were possible to increase the rate of growth, with long-term rates similar to the average recorded in each country during the period 1970-1979, our numerical exercise would mean that the reduction of absolute poverty to the 10% level would take more than 20 years in Brazil and Colombia, and over 30 in Mexico.

If it is considered, on the other hand, that poverty norms will rise with economic development and the ensuing changes in life styles and societal values, and if it is admitted that this process is roughly represented by poverty lines which vary with an elasticity of 0.5 with respect to the per capita product, the prospects offered by the 'trickle-down' of growth as the sole hope

of reducing the absolute magnitude of poverty to 10% of the population are entirely different. To achieve this target would take 75 years in Brazil, 50 in Colombia and over a century in Mexico, at the economic growth rates for 1974-1979, and 47, 40 and 78 years, respectively, if long-term growth attained the rates achieved in the period 1970-1979.

These numerical conjuring tricks, based on an exaggerated abstraction of the relationship between poverty and growth, at least serve to indicate the conclusion that future economic

development in the main countries of Latin America, following the prevailing style, will probably slowly raise the real income of the lower income groups and thus gradually reduce the absolute dimension of poverty. The trickle-down process, however, is discouragingly slow when viewed from the standpoint of the satisfaction of basic needs. Furthermore, what is probably more important is that growth itself changes the nature of the problem of poverty, which in fact cannot be eliminated without a substantial reduction in inequalities.

## V

### Evolution of living conditions

The income or consumption expenditure of households may be viewed as resources which may be applied to the satisfaction of needs which in turn determine the conditions in which they live. Consequently, the estimates of the incidence of poverty analysed above are measurements of inputs rather than of results in terms of the living conditions of the population.<sup>24</sup> The question therefore arises of the extent to which the living conditions of the lower strata have really improved according to indicators of results. Table 5 shows the recent trends in some basic indicators of this kind: life expectancy at birth, infant mortality and adult illiteracy. They show a striking improvement in all these basic aspects of the population's living conditions in almost all countries. Unquestionably, the expansion of free public health and education services, migration to the urban centres and the increase in real income itself have brought about these trends in the average values for the population as a whole. To what extent have the poor shared in these improvements? Regrettably, not even the basic indicators which we are using are available by socio-economic strata. In the case of infant mortality alone, it is known that the mortality

risk of children whose mothers have no education is in most countries of the region between three and four times higher than that of children at the other end of the social pyramid, whose mothers have 10 or more years of schooling (Behm and Primante, 1978). However, even if these differences are taken into consideration it is unlikely that the drop of the order of 20% to 30% in infant mortality in the countries of Latin America between the 1960s and 1970s (see table 5) can have occurred with exclusion of the low-income groups. On the other hand, it is impossible to know whether the rates of infant mortality in those groups have improved to a greater or lesser extent than the national average rates; perhaps in those countries where the drop in the infant mortality rates was more spectacular this may have resulted from a substantial improvement in child mortality among the poor, where the room for improvement is greatest.

The same type of reasoning might be made with regard to the generalized improvement in life expectancy at birth shown in table 5. However, as the trends in this indicator might be heavily influenced by the decline in general mortality in the middle strata, as a result of the improvement in their living conditions, any hypothesis as to the relative magnitude of the rise in the life expectancy of the poor is flimsier.

With regard to illiteracy, the progress

<sup>24</sup>Moreover, they do not even cover all resources or inputs at the disposal of households, as they do not include, as mentioned above, the free public services which are actually used.

Table 5  
RECENT TRENDS IN SOME BASIC SOCIAL INDICATORS

Country	Life expectancy <sup>a</sup> (years)		Infant mortality between 0 and 1 year <sup>b</sup> (per thousand)		Illiteracy <sup>c</sup> (percentage of population aged 15 and over around:)	
	1960-1965	1970-1975	1960-1965	1970-1975	1960-1965	1970-1975
Argentina	66.0	68.4	54	44	8.6	7.4
Bolivia	43.5	46.7	225	157	61.2	37.3
Brazil	55.9	59.8	112	95	39.0	33.8
Colombia	56.2	60.4	85	67	27.1	19.2
Costa Rica	63.0	68.1	80	50	16.0	11.6
Cuba	65.1	70.9				
Chile	57.6	64.2	107	72	16.4	11.9
Ecuador	51.9	57.1	132	100	32.5	25.8
El Salvador	52.3	59.1	123	92	51.0	42.9
Guatemala	48.2	54.6	128	104	62.1	53.9
Haiti	43.6	48.5	171	135	85.5	76.7
Honduras	47.9	54.1	137	110	55.0	43.1
Mexico	59.2	62.7	86	69	34.6	25.8
Nicaragua	47.9	52.9	137	109	50.4	42.5
Panama	63.2	67.4	67	47	26.7	21.7
Paraguay	56.6	63.1	81	53	25.4	19.9
Peru	48.8	55.0	161	122	38.9	27.6
Dominican Republic	52.6	57.9	110	83	35.5	32.8
Uruguay	68.3	68.6	49	47	9.6	6.1
Venezuela	58.9	64.5	77	53	36.7	23.5

<sup>a</sup>Source: CELADE, "Boletín Demográfico N.º 27".

<sup>b</sup>Source: CELADE, implicit rates in life tables.

<sup>c</sup>Source: UNESCO, "Statistics on level of education and illiteracy 1945-1974", *Statistical Reports and Studies*, No. 22, Paris, 1977.

made between the early 1960s and the mid-1970s, as shown in table 5, means that in one group of countries<sup>25</sup> there were about 4% or 5% less illiterates among the population aged over 14 years in the latter period; in another group of countries, between 7% and 9% of the adult population had ceased to be illiterate; and in other countries (Bolivia, Honduras, Jamaica, Peru and Venezuela) more than 10% of the adult population had ceased to be illiterate during the period. Given the close link between illiteracy and poverty (Molina and Piñera, 1979) it is probable that any decline in

the proportion of illiterates is relatively concentrated in poor groups; this is all the more probable when the degree of literacy achieved in the country is higher. Bearing this in mind, it may be considered that the moderate advances recorded in the countries of the first group (with the possible exception of Brazil and the Dominican Republic) have mainly involved the poor. Among the countries of the second group, this may also be true of Colombia and Mexico, in view of the existing levels of literacy. In the countries of the third group, the noteworthy progress made in adult literacy probably involved a considerable proportion of the poor among the population made literate.

In short, the low-income groups cannot fail to have shared in the improvements in living

<sup>25</sup>Argentina, Brazil, Costa Rica, Chile, Guyana, Panama, Paraguay, Dominican Republic, Trinidad and Tobago and Uruguay.

conditions revealed by the indicators in table 5. This does not mean that for considerable proportions of the Latin American population these conditions do not continue to be appalling, nor that inequalities in living conditions do not persist which, when their consequences are duly appreciated (as in the

moral justification of a difference of 20 years in life expectancy at birth), are patently absurd. From this standpoint, again, social inequalities become more clear-cut as the more elementary levels of satisfaction of basic needs are surpassed.

## VI

### Income inequalities

The data available from censuses and household surveys on income distribution in Latin American countries are not favourable to comparisons over time. The main problems hindering such comparisons are: differences of coverage, and the fact that most surveys do not have national coverage; the differing concepts of income in the surveys; the use of reference periods of different length; and in general the differences in the methods of investigation of income used in each type of survey, the differences in data quality and consequently the extent to which each survey underestimates household income, at least with reference to the framework established by the national accounts (Altimir, 1975). These problems restrict the real possibility of comparing different measurements of income distribution at the national level to three countries—Brazil, Colombia and Mexico—and even here the comparisons are not without limitations and can only give a rough idea of what income distribution trends may have been since 1960 in each case.

To this end, tables 6, 7 and 8 give the measurements available on income distribution in Brazil, Colombia and Mexico which may serve as a basis for a comparison over time, as well as the results of adjustments made to the original data in an attempt to improve to some extent the comparability of the measurements. These adjustments are necessary because it is rather unacceptable that the underestimation of incomes, both total and of each type, in the different studies should be distributed uniformly by income levels, since it is therefore probable that the underestimation distorts the

share of each group in total income.<sup>26</sup> The adjustments were carried out on the component distributions corresponding to different economic groups, distributing the discrepancy existing between the survey and the national accounts for each type of income, assuming that underestimation is uniform within each type of income received by each socioeconomic group, with the exception of the underestimation of realized property incomes which were allocated to the upper quintile of the aggregate distribution. When analysing the results obtained, it should be remembered that any adjustment to the results of a survey not based on a strict measurement of its biases is to some extent arbitrary. However, inasmuch as the adjustment procedure makes convincing assumptions about which groups receive the national accounts income not recognized in the distribution by levels of the survey, the adjusted results are probably closer to the true picture of inequalities than the original survey data.

The evidence presented in table 6 on the trends in the distribution of household income in Brazil is quite conclusive, showing that the concentration of income increased considerably between 1960 and the early 1970s, with a sharp decline in the share of the bottom 40%. This is indicated by the comparison of the

<sup>26</sup>These adjustments are part the programme of work of a CEPAL/World Bank joint project on the measurement and analysis of income distribution in Latin America, and were undertaken following the analysis and comparison of the information available.

results of the 1960 and 1970 population censuses, but the rise in concentration is more marked in a comparison of the data from the two censuses and the PNAD survey of 1972, once adjusted to correct the underestimation existing in each case: the share of the households at the bottom of the pyramid declined between 1960 and 1972 from 9.3% to 5.6% of total income, while that of the top 10% rose from 48.5% to 58.7%. The adjustments to these data by Pfeffermann and Webb (1979), using a different criterion, generally result in smaller concentrations of income, but agree on the

direction of the trends. If the results of the PNAD surveys of 1972 and of 1976 are compared, however, it may be seen that between those two years there was some improvement in the share of the bottom 40%, although concentrations at the top increased.

There is a fairly reliable estimate of income distribution in Colombia in 1964 carried out by Berry and Urrutia (1976), but it refers to the active population. Table 7 includes, besides the results of that study, those of the surveys by DANE which provide more bases for comparison. The results of the 1971 family budget surveys on total income distribution among all individual recipients, both active and passive, show no underestimation with respect to the national accounts; compared with the results of the 1964 estimate, there is a decline in income concentration, with an improvement in the share of the low income groups. The results of the manpower survey of that year refer to the employed population and thus should be more comparable with those of the 1964 estimates, but this survey underestimates total income and therefore perhaps also underestimates the degree of concentration; nevertheless, it appears to confirm the improvement in the share of the 40% with the lowest incomes. The distribution of individual recipients by income levels resulting from the 1972 family budget survey provides a different picture from the similar survey held in 1971, since the income shares of the different groups are shown as similar to those existing in 1964. This survey; however, estimates household incomes considerably above those of the national accounts, which suggests that the results may be affected by different biases. In sum, on the basis of this relatively weak evidence the conclusion may be drawn that probably income distribution in Colombia improved somewhat between 1964 and the early 1970s, with some rise, although perhaps not very significant, in the share of the base of the pyramid.

For Mexico, similar surveys held in 1963 and 1968 indicate a weakening of concentration and a rise in the share of the lowest income households, as may be seen in table 8. However, once the corresponding adjustments for underestimation have been carried out, the concentration appears to be of the same order

Table 6

PROBABLE INCOME DISTRIBUTION  
TRENDS IN BRAZIL  
(Percentage of total family income)

	Percentile groups of households		
	Bottom 40	Middle 50	Top 10
1. 1960 Census			
(a) Original data (Fishlow, 1972)	10.1	46.7	43.2
(b) Adjusted by Fishlow (1972)	12.2	48.0	39.8
(c) Adjusted by Pfeffermann - Webb (1979)	9.8	40.2	50.0
(d) Adjusted by the author	9.3	42.2	48.5
2. 1970 Census			
(a) Original data (Langoni, 1973)	9.5	44.6	45.9
(b) Adjusted by Pfeffermann - Webb (1979)	8.4	40.1	51.5
(c) Adjusted by the author	6.9	38.7	54.4
3. PNAD 1972			
(a) Original data (IBGE, 1974)	7.0	42.4	50.6
(b) Adjusted by Pfeffermann - Webb (1979)	8.9	37.5	53.6
(c) Adjusted by the author	5.6	35.7	58.7
4. PNAD 1976			
(a) Original data (IBGE, 1978)	7.7	40.0	52.3
(b) Adjusted by Pfeffermann - Webb (1979)	7.8	...	...

Table 7

PROBABLE INCOME DISTRIBUTION TRENDS IN COLOMBIA  
(Percentage of total income)

	Units considered	Percentile groups of individual recipients		
		Bottom 40	Middle 50	Top 10
1. Berry - Urrutia estimate (1976) for 1964	Remunerated EAP	8.8	43.6	47.6
2. EH-4 Family Budget Survey (DANE, 1976) for 1971	All recipients	9.9	46.3	43.0
3. EH-4 Manpower Survey (DANE, 1976) for 1971	Remunerated employed population	10.3	45.4	44.3
4. EH-6 Family Budget Survey (DANE, 1977) for 1972	All recipients	8.4	43.5	48.1

Table 8

PROBABLE INCOME DISTRIBUTION TRENDS IN MEXICO  
(Percentage of total family income)

	Percentile groups of households		
	Bottom 40	Middle 50	Top 10
1. Family income and expenditure, 1963			
(a) Original data — total income (Banco de México, 1967)	10.2	47.6	42.2
(b) Adjustment by the author — total income	8.0	43.2	48.8
2. Family income and expenditure survey, 1968			
(a) Original data — total income (Banco de México, FCE, 1974)	11.2	48.8	40.0
(b) Adjusted by the author — total income	8.0	42.6	49.4
(c) Original data — Primary cash income plus transfers	9.6	47.8	42.6
3. Household income and expenditure, 1977			
(a) Original data — Primary cash income plus transfers (Dirección General de Estadística, 1979)	10.4	52.8	36.8

in both years, and the share of the base did not increase, although perhaps the situation improved between 1968 and 1977. When the original results of the 1968 survey are reduced to a concept comparable to that used in the 1977 survey, and to the extent that both studies are comparable in other respects, there is a decline

in concentration and some rise in the share of the bottom 40% of households. According to this evidence, the functioning of Latin American dependent capitalism, including that of the various variants which have arisen in the main countries of the region in recent decades, does not appear to offer clear prospects of a signif-

icant and lasting reduction in the inequalities existing between the base and the rest of the pyramid, nor therefore in the relative dimension of poverty.

This conclusion would certainly be strengthened if the field of evidence were expanded to include the distributive results of the programmes of economic reorganization recently undertaken by Argentina and Chile. In this connexion, Brazil is an illustrative case. The process of reorganization there involved, at its most critical point, a very large fall in the already small share of the low-income groups (see table 6, adjusted data), which even appears to have involved a drop in their real income at a time of substantial growth in the per capita product. Once the most critical phase of the process had been completed, and the new

order consolidated, concentration in the top strata remained and the loss suffered by the bottom groups was only very partially corrected. In short, with a striking growth in the medium term of the per capita product (4.8% annually) between 1960 and 1976, the bottom 40% of the households increased their real income at a rate significantly lower than that of all households.

In Colombia and Mexico, where the functioning of the system was not reorganized in this way or to this extent, the major features of existing inequalities remained, although with some improvement in the relative situation of the group at the bottom of the pyramid, whose real incomes rose at rates slightly above the average.

## VII

### Poverty and underemployment

In the current view of underemployment and the insufficient use made of labour resources, the underemployed are defined as those persons whose occupation is inadequate with respect to certain standards or to other possible employment, and a distinction is drawn between visible and invisible underemployment. The former is a statistical concept which characterizes situations where employment is of shorter duration than normal, and the person seeks or would accept additional work; it reflects an insufficient volume of employment. Invisible unemployment refers to a situation reflecting the bad distribution of manpower, or a fundamental disequilibrium between labour and the other factors of production; characteristic symptoms of such situations are low income levels, insufficient use of skills and low productivity (ILO, 1975).

The concept of visible underemployment is fundamentally based on economic considerations concerning the use of every individual's capacity to work. In Latin America, it affects primarily wage-earners in the modern sectors or formal activities, and affects rela-

tively smaller proportions of the population than invisible underemployment.

The concept of invisible underemployment brings together two concerns with clearly different analytical implications: concern for the welfare levels of the population in terms of employment, and concern to make proper use of the human resources available for production. This underlies the many criteria proposed for measuring it, which seek to embrace the different aspects of invisible underemployment. The broadest category, most associated with the use of labour, is that of potential underemployment, which is considered to exist when labour productivity in the production unit is abnormally low, with reference to a particular standard. Situations where the requirements of productive activity imply an inadequate use of manpower skills on the other hand are considered to be hidden underemployment; although they may also be covered by the criterion of potential underemployment, such situations have clear welfare connotations. However, the criterion currently used to identify situations of hidden underemploy-

ment is the receipt of a low level of income (ILO, 1975). This criterion has different implications according to which of the two above-mentioned concerns guides the analysis (CEPAL, 1979). Inasmuch as the analysis is directed towards the efficiency shown by the system in the use of human resources, and is therefore concentrated on productivity, it is necessary to judge whether the income received is a suitable indicator of manpower productivity levels and, in the affirmative case, to establish the income threshold below which abnormally low productivity may be assumed to exist. However, if the use of income to identify hidden underemployment stems from a concern for labour welfare, the determination of income thresholds must be guided by the same normative approach as was used to define poverty. Strictly speaking, they should be derived from the poverty lines.

These considerations provide a framework for the conceptual relationship between poverty and unemployment. To define poverty among the employed population is tantamount to defining the scope of hidden underemployment through incomes. Another problem remains, however, which is that this definition of underemployment does not distinguish between low income resulting from low productivity and low income which reflects the underremuneration of workers in situations of full use of their productive capacity. It is difficult to accept, for example, that abnormally low incomes of workers employed in production units of the modern sector may be due to a lack of use of their capacity. On the other hand, in the traditional and informal activities where low incomes tend to be concentrated they are much more frequently indicative of insufficient use of labour capacity (PREALC, 1974; CEPAL, 1979).

The measurements of the extent of poverty may therefore be considered as approaches to the problem of underemployment from the welfare side, and open the way for treating the problem of poverty from the standpoint of inadequate use of human resources. In the final analysis, this approach is that of underdevelopment.

The heart of the problem of poverty lies in the underemployment aspect. Income differentials per person employed explain over half the per capita income inequalities among poor households in the rest of the pyramid, while the remainder is attributable to differences in the rates of participation in the labour force and in rates of dependence (Molina and Piñera, 1979). In rural areas, poverty is concentrated among agricultural wage-earners and small producers; in urban areas, among own-account workers, labourers and employees in services.

Unfortunately, the manpower surveys do not usually provide the essential information for detecting and analysing underemployment (CEPAL, 1979). However, estimates by PREALC (1979) indicate that between 75% and 90% of the poorest of the employed, i.e., those receiving wages below the legal minimum wage, in the main cities of seven Latin American countries were engaged in activities which were defined as informal.

The results obtained to date by a study being carried out by CEPAL and UNDP on critical poverty in Latin America provide profiles of poor households in some countries, according to the characteristics covered by manpower surveys.<sup>27</sup> These results make it possible to see how far the problems of poverty and underemployment overlap, and also to quantify the relative importance of poverty situations which are not directly attributable to underemployment. With regard to the latter, the results show greater relative concentration, among poor groups, of households with unemployed heads and with non-active heads (housewives, disabled persons, persons living on transfers, and other non-active persons), as well as households with women heads. They also show that households whose heads are visibly underemployed (up to 39 hours' work per week, but preferring to work longer) have a far higher than average probability of being poor.

<sup>27</sup>See Molina and Piñera (1979), and Piñera (1978a, 1978b and 1979a).

## VIII

### Final considerations

These broad impressions may also serve to dispel to some extent our ignorance of the concrete processes relating the different forms of dependent capital development in Latin America with the poverty of large sectors of the population.

As was pointed out earlier, the (considerable but not total) extent to which poverty may be assimilated to underemployment brings us back to the heart of the problem of underdevelopment. The trickle-down of growth has proved unable to solve the problem of poverty, viewed in a historical perspective, with the urgency which growing social awareness attaches to it. If modernization acts at all in accordance with the predictions of Lewis's model (1954), which were partly responsible for the post-war emphasis on modernizing growth, it is doing so over a much longer time span than was expected, and at a human cost which far exceeds the bounds of what is acceptable. Indeed, it may perhaps work over so long a period that in the foreseeable horizon all that can be rescued from the theory is the functionality of poverty for the development of modern capitalist activities. In that case, the elimination of underemployment would no longer be realistic as an integral element of the strategies to eliminate poverty, and emphasis should be shifted to its elimination outside the production system. However, the various kinds of experience in Latin America since the war have shown the limited feasibility of efforts by governments to introduce permanent redistributive reforms on the necessary scale which harm the long-term interests of the coalitions supporting them. The proposals of strategies focusing on basic needs seek to achieve this objective not merely through redistribution but also by reorienting growth itself, so that the entire style of development—and, obviously, of the power structure too—becomes congruent with the satisfaction of basic needs, without calling for

the permanent redistribution of the fruits of growth directed towards other ends. However valuable such utopias may be in inducing change, in any event the formulation of concrete strategies which attach to the objective of eliminating poverty the place which their seriousness and urgency demand calls for further investigation of those elements already present in the Latin American economies which may be mobilized to that end. The search for those elements should include more detailed study of the causes of the striking dynamism of those economies, of which the main ones have already achieved a middle-income level. In this connexion, some questions seem crucial. What combination of modernization, land reform and migration towards productive employment in the cities would drastically reduce agricultural underemployment? What are the specific activities where there are viable possibilities of introducing 'appropriate' indigenous or imported technology? What are the dynamic effects of the improvement in the levels of health and of education and training of the poor groups on the supply of labour at different skill levels, and their consequences for the choice of technology and the demand for skills? What are the economic limits and repercussions on productive employment of wage policies guided by the overall productivity of the economy rather than by sectoral bargaining power? How much room is there for reorienting consumption patterns, given their relationship with imported production technology? How can public expenditure be reallocated to achieve the satisfaction of basic needs? What is the greatest viable margin for permanent redistributive reforms? What is the magnitude of productive employment in public services required effectively to satisfy the basic needs of individuals and of the community? Who are the actors in the necessary processes of change?

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## Towards a social and political dimension of regional planning

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A large proportion of the Latin American countries have sought and are still seeking to incorporate into their development plans and the design of their economic policies elements whereby they seek to correct or minimize some of the most obvious internal disparities in growth rate, well-being and modernization between the various areas or regions which make up the nation.

A by no means negligible fund of experience and theoretical and methodological proposals has been built up in this field, although it is of course not exempt from errors, problems, and even partial signs of exhaustion. At the same time, however, the growing need to modify the systems of government and internal administration of the countries makes it increasingly clear how useful it would be to have a regional structure capable of overcoming the rigidities typical of provincial systems inherited from a now-distant past. Thus, there are contradictory tendencies depending on the points from which regional development is viewed: some degree of crisis as regards the planning of regional development, but the growing validity of a basic component of the latter, namely, regionalization.

The author begins by making an analytical review of Latin American experience in regional development planning, with special attention to the theoretical, methodological and operational problems raised by the transition from a control approach directed at specific regions to an approach aimed at the control of multiregional national systems. In the final part of his article, the author postulates the need to consider regional development planning in three dimensions —the economic, the social and the political— in order to maximize its contribution to the process of social modernization of the Latin American countries.

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## I

### Introduction

All the Latin American countries to a greater or lesser extent face the problem —sometimes explicitly and sometimes implicitly recognized— of converting societies typified by considerable degrees of heterogeneity into something more homogeneous. This is a fundamental part of the process of national construction, a process dealt with in different forms and with different intensities according to the different ideological and political schemes.

In the progress —slow, rapid or revolutionary— from a highly heterogeneous society to a more homogeneous one, certain more visible aspects or manifestations of this heterogeneity are normally given more attention: for example, the distribution of income among persons or sectors, differentiated access to collective social services, the similarly differentiated capacity for participation in political processes, urban-rural disparities, etc.

Some time ago —a couple of decades back— it began to be recognized, although not very formally, that some of the dimensions of social heterogeneity are connected with geographical space, and consequently, tackling the problem necessarily involves dealing with variables defined in territorial terms. This has led to growing interest in the design of spatial policies. In the words of Alden and Morgan: "The contention is that an individual's life chances and opportunities for self-realization vary not only with location in the social structure, but also with location in the spatial structure. If this is accepted then it follows that spatial policy may contribute to the achievement of social equity, and more fundamentally that the achievement of social equity ultimately requires policy and action addressed to the spatial structure" (J. Alden and R. Morgan, 1974).

This progressive recognition of the interaction between spatial and socio-economic structures and between the respective processes of change has had at least three types of consequences. Initially a strong tendency —still extant— emerged to identify *regions and multiregional systems*, as a means of expressing in territorial terms some of the heteroge-

neities characterizing developing societies;<sup>1</sup> for example, the *regional partition* of countries has very frequently been used to demonstrate a dimension of the problem of regression in distribution, by quantifying the *disparities in income between regions*. On the other hand, with something of a time lag, the same cognitive process has led to various attempts to *regionalize economic and social policies* or else in more ambitious schemes has given rise to various attempts genuinely to *integrate* a regional dimension into the very design of development plans and policies. In both cases, there is basically an effort to avoid the design and implementation of homogeneous, comprehensive or aggregate policies which by their very nature, are ineffective for dealing with situations of great heterogeneity, in which such policies simply do not reach certain focal groups. Lastly, as a natural consequence of the above processes, it was sought to *create an institutional apparatus*—in very different forms—capable of carrying on the administration of regional development programmes, both of national scope and of geographically more limited scope.

Gradually, then, many of the elements which typify or define a planning situation were taking shape, i.e., substantive knowledge,<sup>2</sup> a planning procedure or process, a set of agencies responsible for designing and implementing plans and policies, professionalized agents and discretionary machinery for resource allocation.

In its formal aspects, regional planning in Latin America reached its height probably in the ten years between the mid-1960s and the middle of the following decade.

At the present time a process of readjustment may be observed between the field of application, concepts and instruments of regional planning and the form in which these elements are structured in practice, in action.

<sup>1</sup>This does not mean that the so-called industrialized or developed societies are free from heterogeneity, but obviously it is less acute in their case.

<sup>2</sup>In the sense in which Faludi uses this term in his analysis of substantive theory and theory of planning procedures. See A. Faludi, *Planning Theory*, Oxford, Pergamon Press, 1973, Chapter I.

In Latin America, as in other parts of the world, this is not the first time that such a situation has occurred; a similar professional crisis was experienced between the late 1950s and the early 1960s, when the 'fit' between what was visualized as "the regional problem" and the response then prevailing (the planning of specific regions, or as it is currently known, intra-regional planning) was called in question. The process of adjustment at that time first and foremost determined a change in scale in regional action: there was a move towards the planning of a national system of regions or to what is known as interregional planning. Naturally, the change in scale also implied certain changes in the particular concepts and instruments of the profession, but this was rather secondary. The actual bases of the rationale of regional action were not questioned.

A great deal of literature has been devoted to reviewing this early process of adjustment. The Latin American Institute for Economic and Social Planning has published a study (ILPES, 1977) reviewing this question and giving details of some outstanding examples—at the Latin American level—of experiences of regional planning moulded on both the first and the second phases discussed.

Unlike the situation at the beginning of the 1960s, the very concept of the regional development strategy is now being questioned and consequently both the objectives of regional development and the means or policies used to date are being revised. This is what is behind the present polemics between the so-called "from the centre down" and "from the bottom up" paradigms.<sup>3</sup> These alternatives refer to regional development styles and strategies in which, in the first case, the regional development policies show marked centralist characteristics and are based on large-scale processes which are predominantly urban and highly selective from the territorial point of view, while in the second case, the regional development policies are generated in a decentralized form and consequently are more directly associated

<sup>3</sup>See W. Stöhr and F. Taylor (editors), *Development from Above or Below?: A Radical Reappraisal of Spatial Planning in Developing Countries*, London, J. Wiley and Sons (forthcoming).

with regional resources and the scales appropriate to each region, and thus offer more opportunities for the participation of the local population. The above-mentioned book by Stöhr and Taylor contains the most up-to-date discussion on both types of paradigm. This process of revision is not, of course, independent of the more general question associated with the international discussion on development, growth, distribution, styles, basic needs, etc., and reflects from a more restricted angle the present dissatisfaction with the social achievements of the current development models.

Despite the crisis, which is not unrelated to the general crisis in planning which may be observed in Latin America,<sup>4</sup> there are well-founded reasons for maintaining that an adequate regional development policy is a more than significant component of the economic,

social and political modernization efforts being made by the Latin American countries and that an effort of reflection and innovation as regards alternative forms of tackling the regional question is therefore justified. We shall return to this later.

In the following paragraphs, some aspects of the Latin American experience in regional planning will be reviewed first, with emphasis on squaring the difficulties of a theoretical, methodological and operational order which appear when this experience is analysed. Next, the role which this activity could play in the economic, social and political development of the Latin American countries during the next decade will be discussed, as a thesis, and lastly some suggestions will be put forward for helping to make regional development policies more functional in terms of the situation of the Latin American countries.

## II

### Latin American experience of regional planning

#### 1. *The origin of this activity*

The experience of regional development in Latin America covers nearly forty years. In his review and analysis of the regional development programmes existing in Latin America at the end of the 1960s, Stöhr identifies more than sixty such programmes of different types (Stöhr, W. 1972). In view of the great variety he has identified, the possibilities of establishing a typology are very extensive, but for the purposes of grouping these programmes in significant categories the practice followed here will be initially to separate these experiences into those aimed at specific regions (intra-regional development programmes) and those aimed at the development of a national system of regions (interregional development programmes), with the subsequent introduction of further considerations which make it possible to differentiate

between the several final objectives pursued by both types of programme.

“As from the 1940s continuous references to regional development began to appear in Latin America. In professional and academic circles closely linked with practical planning, which at that time was still the subject of demands by the technicians to the politicians, the needs for regional development was put forward in many Latin American countries. Although “regionalist” concepts were not formulated with any precision, there is no doubt that this was a current of technical opinion which favoured inward-directed development based on consideration of the needs of the regions within the countries. The movement therefore had a double nature, in that on the one hand it may be interpreted as a particular form of doctrine linked in some way, although possibly not in an entirely rationalized form, with nationalist development trends, while it may also be understood as a normative-type theory of economic and social development of territorial ap-

<sup>4</sup>See C. de Mattos, “Plans versus planning in Latin American experience”, *CEPAL Review*, No. 8, 1979.

plication. In fact, these two general characteristics, one political and the other technical, appear to be implicit and to be merged in a general and poorly defined idea of regional development" (Neira, E., 1976).

During what may be called the first era of regional planning in Latin America the most usual response to specific development problems, but most particularly the problems of underdevelopment and lack of development, consisted in delimiting a "problem region" and preparing for that region proposals aimed at solving its individual problem.

In terms of a broad-based conceptualization of the categories "centre" and "periphery" it can be seen that the great majority of the so-called regional development plans, programmes or projects constituted activities promoted by the social and economic forces of the "centre" for the purpose of exercising different forms of control—both economic and political—on specific peripheral regions. The identification of a "problem region" and its consequent problems stemmed more from the viewpoint of how a given situation actually or potentially affected the interests of the centre than from a standpoint more closely linked to the integral development of that region (or another). In fact, in some experiments, which are noteworthy for their massive use of resources, the "problem region" identified was far from being in the first place a region, and secondly from having a significant (social) problem. On the other hand, the "region" was assumed to be able to contribute significantly to the growth of the production apparatus of the centre.

Within the category of programmes aimed at a specific region, therefore, it is possible to distinguish a first type of action typified by two characteristics: (i) it is fostered by the centre and (ii) its objective is to exploit natural and/or energy resources. This form of regional development is characterized by the stress laid on enhancing the value of resources not incorporated in the economy and, obviously, located in a peripheral region. The intervention of the centre is not ultimately aimed at the development of the region, taken as a spatial, economic and social entity, but at taking advantage of its natural and energy resources to maintain the

activity of the industrial apparatus of the centre, and/or expanding the economic base of the nation so that the economy as a whole will be less dependent on a small number of export activities.

In such circumstances, regional development, in the sense of a broad-based process implying the modernization of the region's spatial, economic, social and political structure, comes to be considered as a desirable subproduct, but not as an actual aim of the centre's action: if in the end it does not occur, this does not invalidate the centre's action, which was based on a different motivation. In its most concrete expressions, now as in the past this type of regional development takes the form of operations in river basins, intended to exploit or regularize navigation, hydroelectric energy and raw materials. The archetype of these experiences is probably the development programme of the Guayana region of Venezuela.

Within this same category of programmes directed at a specific region, a second important type of activity may be distinguished, characterized by: (i) its promotion from the centre and (ii) its objective of economic domination. Some of the most quoted and apparently most successful examples of regional development actually correspond to situations in which the centre was successful in imposing its domination on a peripheral region. For the purposes of this analysis, the "exploitation" of a region's natural and energy resources and "domination" are two processes of different complexity where the latter may include the former. The "domination" of one region by another is understood as a situation in which the dominant region conditions the economic development of the other in such a way that this development actually functions better for the interests of the dominant region (centre) than for those of the dominated region (periphery). This presupposes the co-opting of the peripheral élites.

Domination does not mean—not necessarily, at least—curbing the economic *growth* of the region which is in a subordinate position. On the contrary, domination normally will mean stimulating the industrialization of the region in question and in some cases the measurement of quantitative results as regards

industrial diversification, employment generated, productivity, etc., leads to the identification of these results with the "success" of a specific regional development programme. This attitude, however, passes over the fact that the net result of all these policies represents a subsidy to the development of the centre, paid for by the dominated periphery. As is well known, the case of the Northeast of Brazil falls partly within this category, and the net transfers of the Northeast to the Centre-South region have been thoroughly studied.<sup>5</sup>

It should, however, be recognized that even at the purely theoretical level it would be difficult to conceive of the existence of a regional development programme directed at a peripheral region which did not in some form benefit the "centre", particularly when such programmes are conceptually located within the mould of the "from the centre down" paradigm. But what is in question is not of course the absolute benefit to the centre, but the relative distribution of such benefits between the centre and the region dominated.

Although the two forms of intra-regional development described have been those of greatest importance (judging from the amount of resources involved) it is no less true that, still from the standpoint of programmes receiving their impetus from the centre, various other forms of regional development are to be found in Latin America. For example, the overriding objective of some programmes known as regional development programmes has been to ensure the political control of some regions. On such occasions the action of the centre stems from the need to maintain the political and institutional order threatened by the demands of movements generated by the deplorable living conditions existing in certain parts of the periphery. It is, for example, possible that the efforts made in the Northeast of Brazil have been a political response to the stormy peasant movement of the late 1950s.

On other occasions, the regional development programmes aimed at specific regions

<sup>5</sup>Outstanding among a number of other studies is the pioneer study of Baer. See W. Baer, *Industrialization and Economic Development in Brazil*, University of Yale, Irving Inc., 1965.

have emerged as a consequence of the need to rebuild areas affected by natural disasters, while in others the programmes have originated in geopolitical and national security considerations, being directed in such cases at the development of frontier areas.

## 2. *The reformulation of the 1960s: from intra-regional planning to interregional planning*

A mixture of factors of a technical and a political nature led, during the early part of the 1960s, to a significant change in the manner of approaching the regional question in Latin America. As an ILPES document says, "It is no coincidence that the appearance of the 'national' approach to regional planning in Latin America should have occurred precisely in the 1960s, for it was in this decade that 'inward-directed' development entered on a new phase of structural and technological change in the industrial sector, associated with a rapid change in patterns of consumption and the location of the corresponding markets, which were now still more concentrated at the national pole" (ILPES, 1977). This process made regional disparities even more acute and helped to give a "national" slant to this problem, thus generating the necessary political conditions for tackling development and regional planning more comprehensively.<sup>6</sup>

At least two important factors of a political nature (not necessarily independent of each other) may be observed in various Latin American countries in the 1960s, which have made a powerful contribution to the emergence of regional planning on a national scale.

On the one hand, a change was to be seen in the structure of the social forces which served as the main support of the governments of some countries. In such cases the governments no longer represented the interests of the

<sup>6</sup>Alan Gilbert, in his book *Latin American Development* (Penguin Books, 1974), affirms in this regard that the establishment of regional development agencies in Chile, Brazil and Venezuela closely followed the election of political parties which had been associated with the idea of administrative decentralization and regional growth: i.e., the governments of Frei in Chile, Kubitschek in Brazil and Betancourt in Venezuela.

urban-industrial groups (or at least did not represent them with the same intensity as in the immediate past), nor those of the groups of rural land-owners.<sup>7</sup> The basis of support was now rather to be found in the sectors of the industrial and agricultural proletariat and in the more intellectual middle-level groups which were more in favour of social change. This was the case of governments such as those of Frei in Chile, Torres in Bolivia, Velasco in Peru, Caldera in Venezuela and Torrijos, in Panama, *inter alia*.

On the other hand, during the same period economic growth began to be questioned as an absolute objective of development efforts and greater emphasis began to be given to the problem of redistribution, or at least redistribution began to be perceived as compatible with growth. This is indissolubly linked with the first-mentioned factor: i.e., the new political "clientèles" called for more participation in the distribution of economic benefits and also in the decision-making processes.

Government response sought to channel and disperse these pressures, so as to turn them away from the central State apparatus; one way of achieving this objective was to offer an intermediate level—regionalization and its institutional apparatus—in which some claims would be watered down and others made viable.

From another standpoint, and as a reflection of the "planning" climate of the 1960s, new dimensions were being sought for State management to favour the professionalization of regional planning and create the conditions for substantive progress in technical knowledge of regional problems. This led, for example, to recognition of the importance of *inter-regional relations* (both of domination-dependence and of economic flows) in explaining the relative situation of the different regions of a country and led to the conviction that the problems of one or more particular regions could only be solved in the broader context of the phenomena linking together the entire system of regions.

At the same time, the influence of the sys-

tems theory and analysis was felt on regional planners. This led to the consideration of each region as an open system inserted in a larger system, namely, the group of regions, and this gave even more emphasis to the question of interregional relations, with the result that processes of interregional planning conceived as part of the general systems theory were designed. The most conspicuous example of this trend is the wellknown book by Hilhorst (Hilhorst, 1971), and to a lesser extent the study by Chadwick (Chadwick, 1971).

Naturally, the change in scale which began to occur in the scope of regional planning in Latin America was also nourished by observation of the trends in force in this regard in some European countries, notably France and the socialist countries.

The fact is, as Alayev says, that in 1965 the recently created National Planning Office of Chile formulated a national regional development policy for the first time in Latin America (Alayev, 1978): an example which was soon to be followed by the majority of the countries in which the regional problem began to emerge as a matter of "national" import.

In the case of regional planning at the national level (interregional planning), different forms may also be distinguished, depending on which groups bring pressure to bear in favour of these schemes and the real interest pursued, transcending the mere labels. The case of Chile clearly illustrates this fact: the national regional development policy carried on under the government of Frei (1964-1970) and Allende (1970-1973) is completely different from the present one, although this does not mean that the latter is not also a national regional development policy.<sup>8</sup>

In some examples of national regional development policies the pressure in favour of introducing a scheme of this nature finds its origins in the periphery's own social forces, which, as was indicated above, become

<sup>8</sup>For an appraisal of the case of Chile see S. Boisier, "Continuity and Change: A Case Study of Regional Policies in Chile", in W. Stöhr and F. Taylor (eds.), *Development from Above or Below? A Radical Reappraisal of Spatial Planning in Developing Countries*, John Wiley and Sons (forthcoming).

<sup>7</sup>This division is artificial in many cases.

through political processes the government's main forces of support. Generally speaking, the main objective of interregional development programmes which originate in this way is national integration. Chile and Peru, in their day, were perhaps the most outstanding examples of this type. In other cases the national regional development policy receives its impulse from the "centre" —as in many of the intra-regional examples— with aims such as bringing into play all the potential (natural and human) resources of the country so as to speed up its growth to the maximum, or with objectives directly inspired in the doctrine of national security.<sup>9</sup>

### 3. Methodological implications of the change

The passage from intra-regional to interregional planning had important methodological implications.

In the first place, it was necessary to construct macroeconomic frameworks or models into which the national regional development policies could be inserted. Gruchman has used the following classification of the different quantitative macromodels tried out in various countries: (a) comprehensive systems of sectoral and regional projections; (b) Klaasen-type models of industrial location and attraction; (c) models for interregional investment programming, such as the Rotterdam and Warsaw models, and (d) comprehensive models of indicative (France) and normative (socialist countries) regional planning (Gruchman, 1976).

It was the construction of the macroeconomic models which gave impetus, on the regional planning side, to the design of multilevel planning processes which simultaneously seek the identification of decentralized decision-making procedures (between a central body for regional planning and the corresponding regional agencies) and a method capable of guaranteeing the compatibility of the group of decisions as a whole. It must be acknowledged that far more progress was made

from the sectoral standpoint than from the regional point of view.<sup>10</sup> Since the Rotterdam model (L. Mennes, J. Tinbergen, G. Waardenburg, 1969) may be considered as a regional programming model integrated into a multilevel planning system, it should be noted that in the case of Latin America, only in Mexico and Chile was an attempt made to develop multilevel planning with a regional component (ODEPLAN, 1968; Carillo-Arronte, 1970).

The same effort to build macromodels for regional planning generated a new demand for regional statistical information, leading to the establishment of embryonic regional information systems which reached different levels of development in different countries. At all events, the question of information for regional planning came to constitute a preferential area of study and work and imposed specific methodological requirements as regards the generation and processing of regional information.<sup>11</sup>

Another methodological consequence of the transition from intra-regional planning to interregional planning consisted of a gradual increase in the degree of centralization in handling the regional planning process, despite the decentralizing trend incorporated in the idea of multilevel planning and also despite the declared objective of using the control of regional development as a means of decentralization in decision-making. To some extent this process was inevitable, if it is taken into account that the still current conception of regional development came completely under the "from the centre down" paradigm. Moreover, the shortage of technical personnel for equipping each region and the stress laid by interregional planning on questions of consistency and compatibility between, for example, the different goals of regional growth, inexorably led to the design of highly centralized processes. Stöhr's book on regional planning in Latin America is particularly illustrative in this

<sup>9</sup>Chateau, J., *Geopolítica y regionalización. Algunas relaciones*, Latin American Faculty of Social Sciences, Santiago, Chile, Working Document No. 75/78, 1978.

<sup>10</sup>The theoretical principles of multilevel planning are mainly to be found in Kornai (1967). A broad sectoral application, to the case of Mexico, is to be found in Goreux and Manne (1973). A proposal for regional implementation is to be found in Boisier (1976).

<sup>11</sup>See for example A.R. Kuklinski (ed.) *Regional Information and Regional Planning*, The Hague, Mouton Publishers, 1974.

respect. Another author comments that to date the decentralization of decision-making has generally appeared as a passive component of regional development policies. This means that it has followed the changes in the economic importance or social structure of the regions, but little use has been made of it as an active or strategic element for regional development or social change. First of all, because little is known of the relevance of the delegation of decision-making for stimulating socio-economic development, and secondly because unless it can be kept within bounds and adequately controlled, it may endanger national unity or lead to the replacement of the established central authority (Pichardo, 1976).

This situation has not only caused frustration on the part of the regional communities, but also a legitimate counter-reaction, which constitutes one of the basic elements in the present regional planning crisis.

Another important matter from the methodological point of view relates to the progressive development of strategic regional planning processes which accompanied the boom in regional planning at the national level, although it cannot be considered exclusive to this field of planning.

The concept of "strategy" was introduced into the terminology and practice of Latin American regional development through a simplistic interpretation of the concept.<sup>12</sup> In effect, the strategic procedure was understood not as a stochastic planning procedure in which the assessment of alternatives and the reactions of the milieu play a determining role, but only as an artifice to avoid the quantification presumably inherent in a plan; the strategies continued to be as normative as the most orthodox plans.

Despite the faulty introduction of the concept, the idea of a national regional development strategy continued to be improved as an alternative to the normative procedure.<sup>13</sup>

<sup>12</sup>This can be clearly seen in the first official documents on regional planning in Chile (e.g., *Estrategia para el desarrollo de la Región del Bío-Bío*, ODEPLAN, 1966), in which the strategy merely proves to be a *qualitative plan*.

<sup>13</sup>See Panama, Ministry of Planning and Economic Policy: *Estrategia para el desarrollo regional a mediano y largo plazo*, Panama City, 1976.

This development was associated with a more systematic review of substantive theory on regional development, which showed up some serious shortcomings existing in this field. The application of a strategic procedure obviously requires a positive theory which enables causal relations to be identified, but it is less demanding in terms of a normative theory. The application, however, of a normative planning procedure demands as a condition the existence of a *normative theory*: in turn, the existence of a normative theory presupposes a well-structured *positive theory*, and this does not seem to be the case in (inter) regional development. In fact, as regards the positive (substantive) theory, there is a partial body of knowledge capable of explaining how space is structured (basically the spatial organization theories of Losch and Christaller); there is also a partial body of knowledge capable of explaining the different processes of change of the spatial structures (the so-called theories of regional growth), but knowledge of how these processes are linked is still incomplete,<sup>14</sup> and it is therefore difficult to speak of a complete positive theory and hence of a normative theory. *Vis-à-vis* an incomplete knowledge of how to mould reality, the strategic planning process is clearly advantageous from the standpoint of risk management.

Regardless of whether strategy or plan was used, the effort to control the entire system of regions led to the need to establish clear regional priorities, in view of the impossibility of earmarking significant resources for all regions. Generally speaking, the implicit or (much fewer) explicit criteria for assigning interregional priorities have been eminently economic and preferential attention has been given to seeking a situation of relative balance between the safeguarding of global economic growth and the objectives of deconcentration and decentralization. In professional jargon, the majority of the strategies favoured an option of "concentrated deconcentration" in a region or in a few regions.

<sup>14</sup>Part of the difficulty—in the case of Latin America—lies in the difference in the validity of the traditional theories of the organization of space versus the regional growth theories.

It may be noted that a strategy of "concentrated deconcentration" within the framework of the "from the centre down" paradigm is based on at least two assumptions: *firstly*, on the possibility of identifying spatial subsystems sufficiently differentiated from each other, and *secondly*, on the possibility of reproducing, within such subsystems, relations of domination-dependence similar to those observed at the national level, as a way of boosting economic growth. In turn, these assumptions are indissolubly linked to the entire conception of *polarized development*. This means that an additional methodological consequence of the change of scale mentioned above consisted of the revitalization of the concepts and instruments pertaining to the theory of polarized development.

This in turn had two effects. On the one hand a very intense and fruitful debate took place in Latin America at the beginning of the 1970s on the validity of the theory and the strategies of polarized development.<sup>15</sup> It is partly the result of this discussion which allows Alayev to state that "in this respect it can be confirmed that there is already a theoretical school of regional development in Latin America" (Alayev, 1978, p. 102). On the other hand,

the emphasis on questions of polarized development led to a more profound and rewarding review of the theories of domination and internal colonialism,<sup>16</sup> and of the elements which condition the interregional mobility of the factors of productions,<sup>17</sup> since a national regional development strategy presupposes action aimed at modifying the traditional pattern of spatial mobility which, according to Myrdal, would only give still further support to the historical process of territorial concentration.

Three more elements can be added to make up the picture of the methodological effects of the progress from intra-regional planning to interregional planning. This change naturally implied a reduction in the relative importance of intra-regional planning procedures (a matter to which we shall return later). At the same time, the level of abstraction of the proposals for regional change increased considerably, and this contributed to the lack of practical impact of the policies followed on various occasions. Finally, a series of factors also came together to generate what some authors have termed "the vice of pure spatialism", i.e., a tendency to consider territorial phenomena as self-contained and self-produced.

### III

## Examination of experience: principal problems

Many efforts have been made to evaluate Latin American experience in the use of regional development policies, although it should be pointed out that the majority of the appraisals are, more than anything else, descriptions at the level of the whole region or of individual countries,<sup>18</sup> without any real analytical content.

In this section an attempt will be made to throw light upon some of the principal prob-

lems which have made it difficult to achieve the objectives sought through the incorporation of regional planning in systems to control economic development. To this end, it may be useful to distinguish as clearly as possible between theoretical, methodological and operational questions, while admitting from the

<sup>15</sup>The discussion is mainly contained in ILPES/ILDIS (eds.), *Planificación regional y urbana en América Latina*, Mexico City, Siglo XXI, 1974 and ILPES, *Los polos de crecimiento. La teoría y la práctica en América Latina*, Santiago, Chile, 2 volumes (mimeo), 1978.

<sup>16</sup>A. Solari, R. Franco and J. Jutkowitz, *Teoría, acción social y desarrollo en América Latina*, Mexico City, Siglo XXI, 1976.

<sup>17</sup>C. de Mattos, "Algunas consideraciones sobre la movilidad espacial de recursos en los países latinoamericanos", in EURE (Santiago, Chile), vol. II, No. 6, 1972.

<sup>18</sup>For Latin America as a whole, the most ambitious works are W. Stöhr, *Regional development in Latin Ameri-*

outset that such a distinction does not necessarily lead to the establishment of independent categories.

### 1. *Principal problems of a theoretical nature*

In touching upon the topic of the "theoretical" problems confronted in planning regional development in Latin America it is necessary to distinguish between the problems which pertain to the basic concept of regional planning (i.e., those pertaining both to substantive theory and to procedural theory) and those which, while of a more general nature, are no less important and relate to the way in which regional planning fits into proposals for social change and therefore to a theoretical interpretation of the whole of society and its processes of change.

From this last point of view, it may be asked whether or not the changes planned in the regional development strategies have been functional, i.e., whether or not they meet the interests of the groups in control of the State. If not, the result would reflect an erroneous interpretation of the political functioning of the society.

Examination of the experience of some Latin American countries does not furnish a precise reply to this question. Even in those cases where the regional project was politically well founded, the short-term conjunctural problems created in part by regional planning itself finally neutralized the regional planning efforts. This may be illustrated by examples such as that of Chile during the period 1964-1973.

In other cases, the error was more ap-

parent, and regional development planning simply lacked political viability.

As Solari, Franco and Jutkowitz pointed out in commenting on the well-known book by Cibotti and Bardeci, "...they therefore conclude that a basic problem lies in the question of their (the plans') political and social viability. It is useless for the planner to include great projects such as agrarian reform or the like in the absence of political conditions conducive to their implementation. This underlines the importance of carefully studying the existing political conditions, the distribution of power, the pressure groups, the interests harmed by this or that aspect of the plan, and similar factors. Although the authors (Cibotti and Bardeci) do not say so in so many words, if the plan is a political project, a political diagnosis is required in advance. Otherwise nothing is known about the feasibility of the plans, and planning may become a futile exercise involving the preparation of documents whose instructions will never be followed". (Solari, Franco and Jutkowitz, 1976, p. 605.)

Since in national regional development strategies any change in the ways in which the surplus was appropriated, and consequently in the direction of interregional transfers, was contrary to the past forms of appropriation, a *sine qua non* for such strategies should have been a political diagnosis such as the one suggested in the quotation above. Actually, such a diagnosis was never made, however. It was simply presumed, very ingenuously, that the interest of the Executive power in the formulation of regional development strategies was enough to make the process viable. The real power structure was not recognized, and it was only very late that regional planners discovered that their profession had a real Pandora's box hidden within it.

In the light of the present experience, perhaps the most notable example of political functionalism in regional planning (within the framework of the Latin American capitalist systems) is the case of Panama, but in any case, it will be necessary to observe the effects on regional development efforts in that country of the new situation resulting from the recovery of the Canal Zone.

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*ca: experience and perspectives* (English translation issued by Mouton Publishers, The Hague); A. Gilbert, *Latin American development: A geographical perspective*, London, Penguin Books, 1974; E. Alayev, *El desarrollo regional de los países latinoamericanos en los años 1950-1975*, CEPAL, Economic Development Division, 1978 (mimeo). Evaluations or general descriptions for individual countries are abundant and include the works of Haddad for Brazil (Haddad, 1978), Jatobá (also for Brazil) (Jatobá, 1978), Boisier for Chile (Boisier, forthcoming), Hilhorst for Peru (Hilhorst, forthcoming), Unikel for Mexico (Unikel, 1978) and Carrillo-Arronte (also for Mexico) (Carrillo-Arronte, 1978).

At all events, an important problem faced by regional planning in Latin America has been its low level of political functionalism. The handy argument of "the lack of political will to see plans through" seems to be particularly hardworked in this case.

Is there really a lack of political will, or is it rather a lack of ability on the part of regional planners to convince all those concerned of the benefit that a regional effort can bring to the development of a capitalist economy? Is it not possible that the regional planners themselves have not been very successful in furnishing a substantive demonstration of the need for such an effort, which calls for an analysis of: (a) the underdeveloped state of the regions; (b) the need for development, and (c) the fact that only planning can ensure development in countries like those of Latin America?<sup>19</sup>

One of the biggest problems of theory in the field of regional planning, and one which bears the greatest responsibility for making decision-making difficult, is the "efficiency-equity conflict". As Richardson comments in his recent review of "The State of Regional Economics":

"The regional policy problem is frequently conceived as implying a 'trade-off' between aggregate efficiency and inter-regional equity. The policy maker's task is then to determine society's (or his own) preferences between efficiency and equity and locate the point on the trade-off function (assuming that this can be derived) most consistent with these preferences" (Richardson, 1978).

Leaving aside the ambiguity with which the concepts of efficiency and equity are handled, the practical significance of the conflict has been that the allocation of resources on the basis of a criterion of efficiency would mean using the scarce resources of the economy for the expansion of those *activities* which are the most profitable. Such activities are primarily located in capitalized regions, with the result that the criterion of efficiency is of no help to the poorer regions. On the other hand, the allocation of resources on the basis of a criterion of equity will mean using them in those very

*regions* which are the most backward and where returns are lowest. Consequently, the criterion of equity would imply a *social cost* in that the potential rate of growth of the economy would be reduced.

In examining the way in which this problem has been dealt with in the regional development policies of Brazil, Jatobá states that "... the solution to the conflict is to be found entirely at the political level in this particular case, while the state of the art is of little importance" (Jatobá, 1978). This certainly very widely supported view that the problem should be assigned to the realm of political decision does not seem very promising, nor does the attempt to erect on increasingly restrictive assumptions transformational functions whereby (supposedly) to measure the "rate of substitution" between efficiency and equity, which has been the approach taken by Mera, for example (Mera, 1967). According to Mera's analysis, the cost of efficiency in terms of equity would vary with the possible rate of substitution among factors of production: the closer the regional production functions come to the fixed-coefficient type of function, the lower the cost of one objective in terms of the other.

Whatever the approach selected—relegating the question entirely to the political sphere or attempting to measure the value of transformation—the suspicion is growing among the experts that the conflict is far from being universal or general and that it will be possible to find more and more cases of compatibility.<sup>20</sup> Apart from the weight which distribution criteria might acquire, and apart from the displacement of the problem to a broader time frame, there are other little-explored examples of compatibility. In Richardson's words, "To sum up, although it is undeniable that the trade-off problem frequently occurs, there are situations when it is possible to sustain an efficiency case for interregional equity strategies. The arguments may include the pursuit of long-term rather than short-term efficiency, maximization of the social rate of return

<sup>19</sup>Solari, Franco and Jutkowitz, *op. cit.*, p. 586.

<sup>20</sup>Beyond the solution provided by the elementary version of the neoclassical model (complete mobility, absence of externalities).

(taking account of negative externalities in prosperous regions and positive externalities in underdeveloped regions), exploiting immobile idle resources, mitigating inflation and minimizing environmental degradation". (Richardson, 1978.)

In the debate on efficiency versus equity (which in practice tends to end in favour of efficiency, particularly when the global strategy is oriented towards rapid industrialization) a singularly important fact has been obscured which on not a few occasions has made the discussion sterile, at least in the terms in which it is usually propounded: namely the relation between inequality in the distribution of personal income and inequality in the inter-regional distribution of income.

"Statements that (inter) regional income equalization will diminish total income inequality must be treated with a similar degree of circumspection. First, the relation or contribution of regional income differentials to total personal income inequality may be insignificant. Economic inequality is associated primarily with personal and other characteristics, including age, sex, education, occupation, etc. In Brazil, where both personal income concentration and spatial differentials are marked, income variations among regions do not contribute substantially to the observed total inequality in personal income distribution" (Fishlow, 1972; Langoni, 1973). "Existing personal economic inequality would persist even if full regional equalization of income were to occur." (Gilbert, 1976, p. 124.)

To sum up, although the argument for efficiency has had more weight than the argument for equity (partly because the conflict has been formalized on the basis of neoclassical constructions), there are beginning to be growing doubts as to its validity. At all events, the fact is that it has obstructed the implementation of regional development strategies. A pending task for regional planners is to demonstrate either the compatibility between global growth (if it is still important) and the reduction of interregional inequalities or the slight impact of interregional inequalities on interpersonal inequalities.

Another question of theory which has

made it difficult to design regional strategies and put them into practice is associated, as was pointed out above, with the theory of polarized development. Since this matter has been the subject of a full public debate, it is not necessary to refer to it extensively, but a summary analysis of the problem is necessary.

Almost without exception all the national regional development strategies formulated in Latin America were based upon or ascribed their reasonableness to the theory of poles of development, the exceptions being Cuba and Panama. Also almost without exception, what was done was to try to apply mechanistically within a given context (that of Latin America) a strategy which was presumably functional in the regional situation of developed economies. No investigation was made of the not always explicit but basic ideological and especially technological assumptions of the original exposition, and what was later seen to be an extremely restricted formula for promoting regional development was held to be something of a "magical formula for industrialization and development". The "development pole" idea was generalized to the point where it became the battle cry for each and every community.

The present situation of the debate (in its technical aspects) may be summarized as follows:

(a) The idea of introducing a destabilizing element (a pole or key industry) into a region with the aim of producing the generalized growth of the whole range of regional activities seems appropriate if, and only if, the area offers a sufficiently diversified economic structure. This comes as the (analytically demonstrable) result of its being the regional multiplier (of employment or the product) to an extent directly proportional to the degree of regional economic diversification. This means (as is logical, moreover, given the regional context of the theory) that the polarized development strategy is effective in activating *industrially diversified* regions which, for one reason or another, are economically depressed;

(b) To use a polarized development strategy for the purpose of promoting the development of areas with specialized structures, it is necessary to introduce simultaneously a net-

work of activities capable of creating in the area a complete (or sufficiently complete) range of inter-industry relations. This, however, raises a problem of scale—the massive use of resources—which, in itself, limits the application and, of course, the dissemination of such a strategy. Any of the alternatives tend to produce enclaves.

Accepting the foregoing, however, is still a long way from the “burial of the growth pole idea” referred to by Kamal Salih (Salih, 1975). It is merely necessary to recognize that a polarized development strategy is applicable in very special and restrictive conditions but that it will still be a part of national regional development strategies. At all events, it constituted one of the most serious problems of theory with regard to the strategies formulated in Latin America.

The whole *centre-periphery* approach and its use in structuring regional development strategies is bound up with the question of polarized development.

As early as 1966, John Friedmann wrote that owing to the historical development of centre-periphery relations in the interior of countries, the regional problem had for the first time become an issue of national importance (Friedmann, 1966). The same author indicated three structural characteristics typical of the centre-periphery model at the national level: (i) a colonial relationship;<sup>21</sup> (ii) deterioration of the terms of trade, and (iii) political pressure from the periphery to reverse the pattern of the model. Hilhorst has made a summary of the centre-periphery theory and of the Perroux theory of domination (Hilhorst, 1971).

The “centre-periphery” theory is an integral part of the CEPAL philosophy, and given its explanatory and methodological value in the analysis of the inter-country relations, there has always been a tendency to apply the same ideas in studying the relations among areas in the same country. As Pinto put it, “since within each country similar problems arise—although bearing their own stamp—in the relations among sectors and units which absorb techni-

cal progress at different rates and also operate at different levels of efficiency” (Pinto, 1965). According to Alayev, the transfer of the method from the international to the interregional scale is justified by the fact that the constructiveness of the method is not lost, since at the national level almost the same powers and forces as those in the world centre-periphery system would operate (Alayev, 1978).

The implicit idea (that certain processes and methods may be scaled down without losing their intrinsic characteristics) is, to say the least, suspect. This is in fact typical of the central idea in the “centre down” paradigm (Hansen, 1978). It must, however, be recognized that arguments, both speculative and empirical, seem to be mounting up in favour of the positive validity of the centre-periphery model at the national level.<sup>22</sup>

The structural characteristics of a national version of the centre-periphery model described by Friedmann may be recouched in more concrete terms. There are a number of necessary and sufficient conditions which must be met if the centre-periphery model is to be applicable as an explanation of the economic and spatial functioning of a regional system. The necessary conditions are: (i) the generation of surpluses, particularly international trade surpluses, in the economic activity of the periphery; (ii) the existence of a relationship in which the periphery is dominated by one or more centres; (iii) trade relations which are unfavourable to the periphery in its transactions with the centre or centres. The sufficient condition is the existence of machinery for the exaction and transfer of the surplus, which may operate simply by means of the price system or through the adverse effect of national economic policies on the periphery:

Another aspect to which attention should be drawn in a discussion of the whole “centre-periphery” problem is related to the forms of ownership of the regional resources. It is a fact

<sup>21</sup>Not necessarily “domestic colonialism” of the type referred to by González Casanova, but rather “domination”.

<sup>22</sup>See, *inter alia*, A. Di Filippo and R. Bravo, *Los centros nacionales de desarrollo y las migraciones internas en América Latina*, ILPES (Santiago, Chile) document CPRD-B/20, 1976; D. Dunham, *Intereses de grupos y estructuras espaciales. Algunas propuestas teóricas*, ILPES, document CPRD-C/40, 1977, and W. Baer, *op. cit.*

that the greater the extra-regional dominion over the natural and productive resources, the easier it is to transfer surpluses from one area to the other. Another contributory factor in this connexion is the diversity in the geographical patterns of distribution of the "plants" and "head offices" of industries and businesses.

The notable fact is that in spite of the relatively abundant literature on the topic and of the unquestioned influence of CEPAL on Latin American planners, one of the few regional development strategies, apart from the initial case of Venezuela, which discusses the topic explicitly (discarding the model in this case) is the strategy of Panama. This has been a problem in that once the theory has been proven empirically in a given case (or not wholly refuted, in the Popperian sense), the resulting strategy is very direct (development poles, price policies and the like). In this sense, it would be possible to detect more than one inconsistency between the strategy proposals made in different countries and the real theoretical explanation of the spatial functioning of those same countries.

Finally, another problem of theory in this field which has not been adequately solved is the problem of the size of countries and of the adjustment (or failure to adjust) of the instruments of regional planning to countries of limited geographical area. Again, the usual course has been to apply the same ideas and instruments indiscriminately regardless of the size (and of the effects of the size) of each country.

Much of the theory and practice of regional or spatial planning is at present based on the concept of large spaces and on the possibility of reproducing, in sufficiently differentiated sub-national spaces, the structures and mode of operation which characterize the relations between the centre and the national periphery. There is still the possibility, however, that the analytical arsenal built on such foundations will not be completely applicable to the case of small countries, where spatial friction plays a different role, or to the case of regions of small size.

This has barely been explored, which is paradoxical in view of the fact that regional planning is a direct descendant of spatial eco-

nomics, whose development was partially a reaction to the neglect of spatialism in traditional economic theory.

## 2. Principal methodological problems

The methodological problems relate to one of the typical components of an economic planning situation as described in the initial pages of this document. This component is the planning *process* or planning procedure.

Is there a regional planning process or procedure? Generally speaking, the reply is affirmative if we accept, for example, Hilhorst's theory that a planning process is marked by three stages: (i) the identification of objectives; (ii) the selection of instruments, and (iii) the use of those instruments (Hilhorst, 1971).

Hilhorst's exposition is oversimplified, however, in that, in the case of regional planning as it is understood today, a distinction must be made between two hierarchically dependent levels of procedure - the process of *interregional* planning and, within its framework, the process of *intra-regional* planning. The two processes are interdependent but different in that the stages comprising them are not necessarily the same in terms of content and/or relative priority.

The way in which the two are articulated throws light on the first of the methodological problems to be observed in the regional planning experience in Latin America. What type of procedure should be followed in planning the development of a region in the context of an interregional development plan?

Since the reduction to scale of the inter-regional procedure is easily criticized in this case, a possible reply may lie in stressing the basically strategic and political (in the sense of political negotiation) nature of the inter-regional procedure,<sup>23</sup> which leads to the design of a process radically different from the traditional one but at the same time sufficiently interconnected with the interregional process. This type of proposal fits in with the present movement to revise the theory and practice of

<sup>23</sup>S. Boisier, "Regional planning: What can we do before midnight strikes?", *CEPAL Review*, N.º 7, April 1979.

regional planning all over the world (Friedmann and Douglas, 1975; Stöhr and Todtling, 1977; Coraggio, 1978).

The absence of an adequate intra-regional planning procedure produced one of the following effects: either national regional development plans simply did not succeed in stating their intra-regional component, or else intra-regional plans divorced from the national plan were formulated, generally with a methodology more appropriate to global than to regional planning.

Another general problem of a methodological nature was seen in the lack of formal and substantive integration of the regional development strategy or plan with the corresponding global plan. This was due to numerous causes, the basic ones being the difference in the professional training of global and regional planners and the notable difference in analytical level between the global and regional proposals. While the global planners, with all the capacity of formalizing economic analysis at their disposal, were able to give concrete replies to such basic questions as how much to invest, how far a country can go into debt and what the probable rise in prices will be, the regional planners were to some extent forced to operate at a very discursive, vague and long-term level.

If attention is now focused on the inter-regional planning process itself, methodological observations could be made on each step in the process. For the purposes of this analysis, it is sufficient to draw attention to two matters:

In the first place, a few short remarks must be made concerning regional diagnoses.

It has been pointed out on numerous occasions that the majority of the regional diagnoses prepared in Latin America have been *descriptive* documents, with only a very limited positive or interpretative dimension. If interpretation is lacking, it is impossible to establish relations of causality in respect of the facts described, or if such relations are established, it is the result of intuition rather than of planning. The inability to establish causal relations in turn impedes policy identification, and when policies are identified, they are directed more to the apparent effects than to the causes.

This want of diagnostic interpretation

must be attribute primarily to the fact that regional development theories are still embryonic and secondarily to the difficulty (more apparent than real in any case) of quantifying and formalizing regional phenomena, which itself is the result of the scarcity of statistical data and of appropriate techniques.

Secondly, some observations may be made with regard to the objectives usually set forth in regional planning.

In this connexion, two considerations arise, the first of which is the greater complexity of the process of establishing objectives in regional planning as compared, for example, with global planning. This greater complexity is due to the fact of working simultaneously with three objects of planning: i.e., the individual region, the multiregional system and the national space. This, in its turn, raises complex problems of compatibility. On the other hand, and leaving aside for the moment the distinction made above, the basic problem with regard to regional objectives has been precisely their inconsistency with global objectives. This should not necessarily be confused with the question of political functionality mentioned in the preceding section, because even when such functionality has existed, the problem of consistency, extending even beyond the "efficiency-equity" question, remains.

For example, is the global objective of stability consistent with the regional objective of accelerating the industrialization of a particular region?

The exercise of verifying the consistency of regional and global objectives has rarely been carried out. One notable exception is to be observed in Bolivia, where at the beginning of the 1970s the United Nations advisory team (PODERBO Project) examined this factor as part of the task of formulating a long-term regional development strategy.

Obviously, if such an examination is not made, the probabilities of producing contradictory policies increase significantly, and the possibilities of incorporating regional objectives in general development plans shrink, if only because of the natural misgivings of global planners (for whom the analysis of the consistency of objectives is virtually routine) with respect to totally unevaluated proposals.

In addition, and to end this summary consideration of a few methodological problems, attention must also be drawn to the sizeable lag in techniques for evaluating projects in the light of regional criteria, which has made it difficult to defend the reasonableness of not a few regional proposals.

### 3. Principal operational problems

Operational problems are those which affect the initiation or implementation of regional development strategies.

*Regionalization* itself must necessarily be singled out as the principal problem with regard to implementation. The problems arising out of attempts to justify certain regionalization efforts have been associated with two factors: the artificiality of some proposals and the political repercussions of regionalization.

With regard to the first of these factors, it is necessary to bear in mind that to a large extent the delineation of regions in Latin America (during the past two decades at least) has primarily been carried out by regional planners, who have most often been specialists in economics or even economism. The regions identified have in some cases been veritable artifacts with do not actually correspond to social forces or pre-existent bonds of loyalty. Little importance was attached to the many-faceted nature of a region, from the differentiated space continuum to the collective consciousness of belonging to a place.

Naturally, the attempt to confine a social and political reality characterized by strong feelings of belonging, association and identity in geographical categories drawn up on purely economic lines gave rise to political and social resistance which finally rendered the regionalization project sterile. This was true of some areas in the north and south of Chile during the period 1964 through 1970, and also more recently of Ecuador in respect of the province of Chimborazo.

On some occasions, local feeling is such a powerful force that any attempt at regionalization in which an effort is made to rationalize the structure of spatial relations is automatically doomed to failure. This seems, to some extent, to be the case in Bolivia, where the

proposed strategy all but avoids the question of regionalization, preferring to concentrate entirely on *space* and on the strengthening of institutions.

Sometimes, as in the case of Guatemala, the line of least resistance is taken and the familiar *sectoral* regionalization (in this instance, of the agricultural sector) is adopted.

In this context it is worthwhile citing some of Alayev's comments on what happened in Latin America between 1950 and 1975.

"In the year 1950 the 19 Latin American countries were divided into 357 first-order administrative territorial units. Three hundred and twenty-six of those units belonged, on the basis of their degree of autonomy, to the 'first class' (states, provinces, departments), while 31 of them, which came under the direct jurisdiction of the central government and were endowed with special status (territories, *intendencias*, commissariats, regions) belonged to what we call the 'second class'. In the period roughly between 1970 and 1975, the total number of first-order divisions rose to 374, an increase of 17 units: within this total, the number of second class units decreased by 11 to only 20 units, while the first class units rose by 28, to 354 units.

"The indicator of the percentage of population affected by the administrative changes (living in areas which have changed their 'status', going from one class to another, or their jurisdiction, by passing from one administrative centre to another) is as follows:

Brazil and Honduras	0.8%
Ecuador	0.9%
Nicaragua	1.6%
Argentina	5.9%
Dominican Republic	10.6%
Colombia	12.3%
Haiti	26.9%

It is seen that in seven of these countries (all but Haiti, whose example is of little importance), the extent of the administrative reforms in the reorganization of the territory was modest; in 10 countries, as has already been stated, the administrative systems remained intact throughout the period, with one notable excep-

tion (the case of Chile) which will be discussed below.

"This scant mobility of the Latin American administrative systems (the changes mentioned affected only 2.6% of the continental population) calls for a special investigation; let us confine ourselves, however, to the conclusion that alongside the centralizing tradition there also exists a conservative tradition in respect of administrative division.

"The following table was drawn up on the basis of material from the Second Latin American Seminar on Regionalization and the analytical study carried out by the Latin American Economic Projections Centre of CEPAL, with a few additional observations:

Country	Number of administrative divisions		Number of regions identified for purposes of planning
	1950	1975	
Argentina	25	24	6 and 8
Brazil	26	27	5
Colombia	25	30	6
Ecuador	18	20	5
Guatemala	22	22	4
Haiti	5	9	4
Honduras	17	18	10
Mexico	32	32	10
Panama	9	9	4
Peru	24	24	5
Dominican Republic	21	27	3
Venezuela	23	23	8

"On the average, one region in terms of the plan corresponds to 3 or 4 administrative regions. But what is this correspondence? Is there any correspondence or 'congruity', as it is called, between the two systems? Congruity—when a region in terms of the planning system corresponds to the total number of administrative regions and the outer limits of a region under the planning system and the total number of administrative regions territorially coincide—exists in 6 countries (Brazil, Ecuador, Guatemala, Mexico, Haiti and Panama). In the other countries the territorial systems used in the plan are totally or partially incongruent with the administrative systems. This becomes all the more curious in view of the fact that

theoretically the need for regional congruity both outside and within Latin America, was established a long time ago. It seems that the majority of countries on the continent stand in need of more radical territorial administrative reforms. Since a wide range of activities (health, education and housing programmes; the budgetary system; the collection of statistical data, etc.) are conducted through the administrative units, it may be concluded that the retention of such incongruity results in discrepancy between economic and other government activities."

"It would seem that in the Latin American countries, regionalization will follow the pattern given below: first, planning regions will be created and stabilized; second, the administrative system will be made congruent with the planning system; and finally, the economic regions will be given the powers and functions of first-order administrative units; in many cases, and especially in those countries which are large in size, the old units will not disappear but will constitute a level half way between the new big units and the municipalities, and will have to be divided up later." (Alayev, *op. cit.*)

On the other hand, the attempt to introduce administrative regionalization clearly meant altering the pattern of the distribution of power within the internal and public administration apparatuses of each country. This resulted in political resistance at two levels: that of the rest of the institutions in the public sector, and that of the administrative authorities (intendants, governors, mayors, etc.).

In all cases it has been difficult to adapt both the public and the internal administrations to the new structures proposed by the regional development strategy; indeed, the relatively inflexible position of the regional planners themselves has not been very helpful in this connexion.

In this sense, Chile is an example of the authoritarian but undeniably effective imposition of regionalization for purposes more of modifying the internal administration system than of planning. At the other extreme, Venezuela may be cited as a case where flexible political negotiation achieved the establishment of a regionalization project.

Apart from the operational problem posed by the attempts at regionalization themselves, the regional development strategies suffered mainly from a lack of continuity in the application of the policies and a lack of enough technical teams for each of the proposed regional administration.

The lack of continuity reflected in frequent changes in regional priorities has been due to various factors, including the absence of a

supra-ministerial body (on the lines of a council of ministers for regional development) capable of going beyond the fluctuations of short-term policy and therefore of adopting long-term political decisions. The fact is that—even though this may have a certain air of escapism about it—the modification of the existing patterns of regional development is a task which, despite the long-term nature of its results, it is nevertheless essential to tackle now.

## IV

### The role of regional planning in Latin America during the coming decade

The preceding sections of this document may have left a relatively poor impression with regard to the implementation of regional planning in Latin America. Such a view would be only partially correct, however, because while it is true that the “problems” relating to the regional experience have been given great prominence, it is no less true that the efforts for development and regional planning must also be acknowledged. Indeed, not only is renewed interest in the topic perceptible today, but an attempt is being made in a number of countries to incorporate some aspects of regional development in the constitution itself. Likewise, the United Nations now supports established technical co-operation programmes in this field in at least five Latin American countries (Guatemala, Honduras, Panama, Venezuela and Ecuador), which shows the interest of governments in incorporating the regional dimension in their development plans.

The regional question may be viewed from three complementary angles, depending on the way it relates to the great national problems.

*First*, it may be viewed as a question of adaptation or functionality as between the organization of space<sup>24</sup> and the global develop-

ment model. Not all the ways in which space can be organized are equally efficient in terms of different development models (or styles). For example, space organized in a highly concentrated way presents added difficulties under an “inward-looking” development strategy or model whereas, on the other hand, it may be an efficient kind of organization in relation to an “outward-looking” development model. A system of urban centres characterized by a high degree of primacy and marked urban-rural discontinuity is a stumbling block in the achievement of objectives such as national integration and social equity because of the obstacles to spatial diffusion inherent in such a system. As Hermansen points out, the way in which the relationship between economic development and the organization of space is handled is reflected in two approaches to and ways of practising regional planning: adaptive regional planning and regional development planning (Hermansen, 1970).

*Second*, it may be treated as a question of efficiency in the design and implementation of national economic policies. As noted earlier, structural heterogeneity has a geographical or territorial dimension, and therefore the implementation of homogeneous or non-discriminatory types of policies either does not allow for certain localized focal groups or else tends to worsen the relative situation of the least developed regions.

<sup>24</sup>The organization of space relates to the structure (at a given moment) of human settlements and production bases, the network which links them up, and the flows of resources, people and goods which are observed in that structure.

*Third*, it may be viewed as a question of power distribution, particularly within the public administration system. Thus any attempt to establish a society with a relative balance of power confers an eminently political dimension on regional planning. In this case, some of the process of power distribution takes place through a wide range of organizations of the territorial type and also through various levels of the hierarchy of territorially established authority.

Considerations such as the foregoing thus justify the establishment of a regional planning component in systems for administering development. The following sections contain an exposition—a thesis—of the contribution which regional planning should be able to make to the economic, social and political development of Latin America in the immediate future and later.

### 1. *Regional development and economic development*

The relationship between regional development and economic development may appear obvious and simplistic, since no author or expert would cast doubt on the affirmation that economic development should be understood as a socially inclusive, rather than exclusive, process; and if, at the same time, it is postulated that regional development should be preferentially aimed at the incorporation of relatively backward areas and/or populations, the relationship between the two could only be one of positive association.

It is, however, one thing to accept positive association in general terms and something else again to prove that economic development cannot succeed unless a regional development process precedes or runs parallel to it. In the following pages a somewhat less ambitious course will be taken, and an attempt will be made to demonstrate the relationship between regional development and certain matters or aspects usually considered to be central to economic development.

Economic growth—a sustained increase in the productive capacity of an economy—is, as we all know, associated with investment (as well as with other factors such as technological

innovation, the quality of human resources, etc.). Thus, the question of regional versus global growth (as the problem is usually posed) becomes in the last analysis a question of *where* to invest, geographically speaking.

The discursive argument as to whether to invest in the “centre” or in certain places in the “periphery” is not conclusive one way or the other, and the choice of a strategy must necessarily be based on quantitative analysis. The factual conditions of each country will play a decisive role, since there are reasons for expecting that countries at different stages of development, of different size and population and with different resource endowments and patterns of settlement will produce strategies which also differ. In addition, the time span worked with will determine the choice of strategy.

The debate on this point has tended towards the polarization of those who take an absolute stand either for investment in the periphery or for investment in the centre, so it is hard to believe that framing the discussion in these terms would be of help in finding a socially effective solution.

To illustrate the way in which the problem should be posed it is worth while commenting briefly on the Rahman model (Rahman, 1963). Working with a dynamic programming model of an economy with two regions in which the rates of saving and marginal capital/product coefficients are given and constant, Rahman demonstrates that maximum growth of total income is not necessarily achieved by allocating the total investment flow to the more productive region throughout the whole programming period. Given the marginal capital/product coefficients, the decisive elements are the rates of saving. If the technically more highly developed region also shows the bigger rate of saving, then the other region has no economic argument for reversing the investment policy in its favour. If, however, the less highly developed region has the higher rate of saving, the optimum strategy from the point of view of maximizing the aggregate growth may be to concentrate the investment in this region initially for a certain length of time, even if this means a short-term loss in production and in-

come. This, however, is an optimum strategy only if the programming period is sufficiently long to allow the initial loss of income to be compensated within the same programming period because of the higher rate of saving of the less well developed region.

In spite of certain limitations of the Rahman model, which have been referred to in the literature on the subject, it is important to take account of his work in this connexion not only because of its intrinsic value but also because it dates back relatively far, thus showing that it has not been a lack of analytical models that has prevented the quantification and objectivization of the problem of the territorial allocation of investments and hence of the problem of regional versus global growth.<sup>25</sup>

Price stability is another big aspect of the general question of development and is, moreover, closely linked to growth. For various well-known reasons, inflation is one of the main concerns of governments, and here again it would be appropriate to wonder whether there is any relation between the regional question and the size of price rises and whether some inflationary pressures might be relieved by controlling certain aspects of regional development.

This is a virtually unexplored topic despite a suggestive work by Higgins (Higgins, 1973), who has argued that the reduction of regional disequilibria is important for keeping rates of inflation down. His argument is based on the theory that labour markets are regional more than national, whereas price rises are rapidly diffused throughout the national economy. Higgins's analysis is based on the well-known Phillips curve, i.e., on the relation between unemployment and inflation. In Higgins's view, those countries with the worst "trade-off", i.e., with high levels of inflation combined with high rates of unemployment, are usually at the same time countries (such as Brazil and Indonesia) which show very significant regional disparities. Conversely, the Phillips curves for countries such as England, Sweden and

Australia, where there is practically no regional gap, are relatively favourable. According to Higgins, the reason for this is that in the first case inflation is produced in one region and unemployment is concentrated in others.

This is a subject which requires a great deal of further investigation. It goes without saying that the demonstration of some special relationship between inflationary pressures and regional imbalances would go a long way towards associating the regional question with a political issue of national importance and would thus advance the task of incorporating regional action into the decision-making processes most relevant to economic policy.

Income distribution is perhaps the central topic in the present debate on economic development. As the general terms in which the question is couched are sufficiently well known, it is unnecessary to repeat them here, and it is preferable to proceed directly to consideration of the ways in which regional development and income distribution are related.

Three aspects of the question are relevant here: territorial differentiation in the pattern of such distribution, the sometimes opposing roles of inter and intra-regional income distribution, and the issue of critical poverty.

The first of these aspects is fairly simple. In the final analysis personal income distribution is not a problem which can be considered to be purely national, with no geographical dimensions. Some of the new empirical studies available show that even in countries of very limited geographical size, the patterns of distribution tend to differ significantly from area to area; what is even more important, the factors responsible for this also tend to be different.<sup>26</sup> CEPAL also reached a similar conclusion in a study in which income distribution in some metropolitan areas in various countries was compared with that in the rest of the national territory.<sup>27</sup> The conclusion which immediately comes to mind is that in many cases it is impossible to tackle the problem of income distribu-

<sup>25</sup>Many other authors, none of them Latin American, have touched on the same topic. See, for example, the works of Reiner (1965), Hemmansen (1975) and Siebert (1969).

<sup>26</sup>According to a study prepared in 1974 by the Statistics and Census Bureau, this is true of Panama.

<sup>27</sup>CEPAL, *Algunos problemas de desarrollo regional en América Latina vinculados a la metropolización*, Santiago, Chile, 1971.

tion without explicitly differentiating between regions in redistribution policies. In this regard, however, general principles cannot be established since, as was discussed above, in other cases the contribution of spatial heterogeneity to the total heterogeneity of income distribution may be non-existent or very limited.

The second aspect has been quite well covered in the literature on the subject, and it might be said in this respect that there is now a consensus. The lessening of the income inequalities between regions may be and usually is accompanied by an increase in the disparity in income distribution *within each region*. It is not difficult to offer mathematical proof that an increase in interregional equity may be accompanied by a decrease in intra-regional equity and—depending on the magnitude of the increase—in equity at the national level too.<sup>28</sup> A now classic discussion of an empirical example of this was prepared by Barkin in the case of Mexico (Barkin, 1972). Gilbert and Goodman come to the following conclusion in their recent analysis concerning the northeast of Brazil:

“The criterion of regional income equalization should be used with care. It is not difficult to conceive ways in which regional income convergence may occur without leading either to rapid national growth or to an improvement in the situation of the poor. Specifically, regional income convergence may be associated with negligible gains in (or sometimes even a lowering of) real incomes of the poorest groups in society and with a worsening of the size distribution of incomes within the poorest regions”. (Gilbert and Goodman, 1976.)

The third aspect—critical poverty—has been the subject of numerous studies recently. These have thrown light on two facts which are relevant from the regional point of view: first the “poverty maps” or “poverty X-rays”<sup>29</sup> have made it possible to identify particular

areas or regions in which the level of collective poverty exceeds given limits and this, in its turn, has probably helped to formulate strategy options favouring direct aid to people rather than localities.<sup>30</sup> Secondly, studies of a more analytical nature (Molina and Piñera, 1979) have shown that the geographical dimension of poverty is an important explanatory variable. Although it is true that so far the analysis has been in terms of rural-urban categories, it is no less true that in many cases this categorization coincides with the regional classifications.

The foregoing arguments emphasize the contribution which regional development and planning can make with respect to a problem as crucial as distribution, particularly by showing the geographical dimension of something traditionally considered to be a typical “national” problem.

Employment is another of the classical problems in the development debate, and, in some senses, employment and technology are two sides of the same coin.

The technology-employment duo has been fairly thoroughly studied in regional terms, at least in so far as the evaluation of certain specific experiences is concerned.<sup>31</sup> The general conclusion of these studies is well summarized in the following remarks by Stöhr and Todtling on the transfer of technology and capital to peripheral areas: “These capital and technology transfers are used in practically all the countries analysed. Essentially they are instruments supposed to create, as far as factor availability and infrastructure are concerned, conditions in peripheral areas more like those of core regions. The strong emphasis of most regional development policies on capital incentives and on the introduction of high technology (often incorporated in capital) have stimulated the emergence of capital-intensive industries in peripheral areas and have thereby *increased regional productivity and the regional product*”.

<sup>28</sup>J.L. Coraggio, *Elementos para una discusión entre eficiencia, equidad y conflicto entre regiones*, CIDU, Santiago, Chile, 1969.

<sup>29</sup>The surveys on the location of poverty carried out in Panama and Chile, for example.

<sup>30</sup>This is a basic option in any regional development strategy.

<sup>31</sup>Two interesting studies in the Latin American context are those of Koch-Weser for the Northeast of Brazil (Koch-Weser, 1973) and Izaguirre for the Guayana region of Venezuela (Izaguirre, 1977).

"At the same time, the transfers have produced relatively *small employment effects* and contributed comparatively little ... in spite of the application of employment premiums in some countries." (Stöhr and Todtling, 1978.)<sup>32</sup>

The real issue, however, is not to prove the capital-intensive nature of a large number of regional industrialization policies but rather to seek and put forward other alternatives with a larger employment effect.

From this point of view, it is necessary to return to the thinking of Schumacher on "intermediate technology" and the regional scope which the author himself conferred on it. The distinguished German economist says that the real task may be formulated in four propositions:

*Firstly*, jobs must be created in the areas where people actually live, and not primarily in the metropolitan areas towards which they tend to emigrate;

*Secondly* these jobs must on the average be sufficiently cheap for them to be created in large numbers without requiring an unattainable level of capital formation and imports;

*Thirdly*, the production methods used must be relatively simple in order to minimize the requirements for skilled personnel not only in the production processes but also with respect to organization, supply of raw materials, financing, marketing, etc.

*Fourthly*, production should be carried out primarily which local resources and principally for local use.

These four requirements can only be met in so far as a 'regional' approach to development prevails and, furthermore, only if a deliberate effort is made to develop and apply what may be termed 'intermediate technology' (Schumacher, 1977).

This type of approach is clearly related to some of the characteristics assigned to the "from the bottom up" paradigm, specifically with respect to the use of small- or medium-scale technology involving the increased use *in situ* of regional resources and primarily aimed at meeting the basic needs of each region.

<sup>32</sup>Italicized in the original.

In order that regional development strategies may make an effective contribution to solving employment problems, it will be necessary first to change the traditional objectives of regional development plans, which are still overly slanted towards economic growth targets, so as to promote instead the maximization of jobs. Clearly, this will also assist in achieving greater distributive equity. What is surprising in the light of the currently serious problems of unemployment in many Latin American countries, however, is that whereas the simple identification, at the level of each region, of the sectors with the highest employment multipliers could assist in directing public expenditure in a manner perhaps more efficient than the traditional one, this is not done in practice.

Although the use of intermediate or "socially suitable" technology may help, as mentioned above, to alleviate the problem of unemployment, it is also true that only a radical change in the territorial concentration pattern can really solve it. This is the same as saying that the problem of massive, structural unemployment can only be solved through regional development, because of the combined effect of two forces: on the one hand migration, the increase of which tends to add to the geographical concentration of the population and consequently of the labour force; and on the other, technology, which generates a lower growth rate of demand for labour by industry and by the formal urban sectors in general. These two tendencies produce a chain reaction, beginning with an increase in the rate of under-utilization of the labour force, which in turn leads to an increase in the size of the informal sector, which has direct repercussions on average productivity, the income level of wage-earners and the poverty of broad social strata.

Ecological or environmental problems are undoubtedly one of the most important issues in the current discussion of development or of "another kind of development".

The topic of eco-development is perhaps one of the social subjects most suitable for being handled through regional development strategies, partly because of the localized nature of the problems of the conservation and

renewal of resources on the one hand and pollution on the other.

In considering the concept of eco-development put forward by M. Strong and I. Sachs, Gutman states: "From this perspective, regional planning is an especially suitable framework for the promotion of eco-development. The regional planning approach coincides with the emphasis placed by eco-development on diversity of styles and the maximum use of the opportunities provided by the local ecosystem" (Gutman, 1977).

The association between this type of concern for resources and the environment and regional development is also one of the basic characteristics of the "from the bottom up" paradigm in regional planning.

To wind up this cursory examination of some of the relationships between regional development and economic development, it is worth repeating the opinion expressed long ago by an eminent Latin American, who wrote in the prologue to a classic ILPES book: "But let us single out and anticipate what is perhaps its most important conclusion: development can be boosted dynamically only if its geographical range is extended, if it is liberated from the barriers which currently appear to separate and fragment it within countries, and if it is given a unity which at present it obviously lacks".<sup>33</sup>

## 2. Regional development and social development

Social development is a transformational process primarily, but not exclusively, involving the expansion of the opportunities for self-realization by persons, whether as individuals or as members of groups. In this sense, social development presupposes a certain manner of distributing the products of economic activity and general access to collective social services.

As was noted in the first pages of this document, increased social equity is achieved through the execution of spatial or regional policies, inasmuch as an individual's access to

opportunities depends on his position not only in the social network, but also in the spatial network. In the following pages, we will review some of the regional development's possible contributions with respect to some general social development objectives.

A society's well-being is currently measured by the size of its gross national product. "GNP is a concept which can be measured statistically, thus it satisfies the requirements of a technocratic conception of contemporary society, and apparently includes all the goods and services which the community may generate over time to satisfy the basic needs of its members."<sup>34</sup> This approach is now being radically questioned, although the essentially utopian nature of most proposals for different development styles must at the same time be pointed out. Perhaps, however, what seems utopian or at least premature at the global social level would be less so at the geographically smaller regional level. Here, perhaps, the margin of the "possible" would be greater, and consequently, some dimensions of another "style" of development might be viable.

Social development must be understood as being based on broader dimensions than what Allardt calls the *having dimensions*,<sup>35</sup> which involves material needs and the notion of the economic product. The same author proposes the incorporations of two other types of human needs which seem to be particularly appropriate for inclusion in regional plans: the need to *love*, referring to relations between individuals and measured by components such as local solidarity, family solidarity and friendship, and the need to *be*, referring to the degree of self-realization of individuals (in contrast with the alination of the individual in mass society) and expressed by components such as the degree of irreplaceability and the quantity of political resources and access to the decision-making system possessed by each individual. Galtung, for his part, adds two additional components of interest for regional development: the possibility of choosing different

<sup>33</sup>From the prologue by Cristóbal Lara B. to the ILPES book, *Dos polémicas sobre el desarrollo de América Latina*, Editorial Universitaria, Santiago, Chile, 1970.

<sup>34</sup>CEPAL (Santiago, Chile), project on 'Styleless of development and environment in Latin America', report No. 2, November 1978.

<sup>35</sup>Quoted in Stöhr and Todling, *op. cit.*, 1977.

lifestyles and the degree of local autonomy versus external control.

The need to *love* and to *be* are most easily realized in *proximate* social spaces, which for that very reason are closer to the regional than the national dimension. It is this that, from the regional development point of view, makes the above concepts especially interesting.

Proposals such as those included in the "from the bottom up" paradigm, the "selective spatial growth" strategy, or the "negotiated regional planning" strategy, all of which have been put forward in recent years, have the common elements of favouring a type of regional development on the "human scale", in contrast to the traditional, large-scale paradigm, which is often socially disruptive.

The new trends beginning to emerge in regional planning tend to give it a much broader sociological dimension than in the past. One of the concepts which appears repeatedly in the current literature is that of *self-reliance* (Seers, 1977; Stöhr, 1978; Villamil, 1977). The idea of self-reliance in regional development is connected with the ability of each region to establish its own development targets and styles (within, of course, a unified national framework) through greater capacity for political negotiation. It also implies a change in the systems of ownership and control and in consumption patterns. However, it should be recognized that little is known so far about the role which the notion of self-reliance could play in economic development.

The individual's opportunities for self-realization obviously depend on various factors pertaining to the social structure, for example social mobility. They also depend on the *variety* of social structures and systems, and ultimately on the lifestyles to which the individual may have access. These factors are closely related to the degree of unity or diversity of styles of development contained in the regional development project. The more the proposed regional strategy is centralist and authoritarian and involves little participation (a common trait of nearly all of them at present), the weaker the ability of each community to define forms of organization and development based on its own values, and consequently, the lower the

degree of diversity. We shall return to this subject later.

Social development is associated with the idea of "modernization" and it has been indicated on a number of occasions that regional development strategies have the final purpose of "modernizing" regions.

The transition from a "traditional" society to a "modern" society implies:

(a) Changes in the predominant normative structure, so that individuals find themselves less and less obliged to act in ways that have been strictly established beforehand, thus increasing the situations in which they may legitimately choose between various alternatives;

(b) The replacement of the institutionalization of tradition by the institutionalization of change;

(c) Growing specialization of institutions and the emergence of relatively autonomous and specific value systems for each institutional sphere.<sup>36</sup>

This modernization process does not occur simultaneously throughout the territory; it arises principally in the large urban agglomerations and spreads both through the space of functional relations and through the space of urban relations.<sup>37</sup> For this reason, the modernization of the whole society presupposes the existence of a *continuous urban system*, well linked up with the system of rural settlements. As is well known, the majority of urban systems in Latin America are discontinuous and of an extremely high degree of primacy. For this reason, the modernization of society and particularly of the agricultural sector implies the need to "fill in the gaps" in the structure of the urban system, that is to say, it presupposes specific policies for developing the national urban system, which is an important part of the regional development policy.

The provision of certain collective services such as health, education, and housing has traditionally been considered as a basic component of social development, within a restricted,

<sup>36</sup>A. Solari, R. Franco and J. Jutkowitz, *op. cit.*

<sup>37</sup>See J. Friedmann, *A General Theory of Polarized Development* (1972).

sectoral perspective, certainly, but one which is nonetheless valid.

The relationship between regional development and the provision of such services is too obvious to be discussed in detail. It is sufficient to point out that in the European experience of regional planning, *collective services*, that is to say, education, health, housing and recreational facilities, constitute perhaps the most important component of regional plans, and specific programming methodologies have been developed for them (Klaasen, 1968). At all events, the location of services such as education and health is a typical regional development problem, since geographical accessibility here is a determining factor.

### 3. Regional development and political development

“Development is a total social process, and it is only for the sake of methodological convenience or in a partial sense that we can speak of economic, political, cultural and social development” (Jaguaribe, 1973). This quotation is useful in making explicit the artificial nature of the exposition: the separation for analytical purposes of a whole which in reality is indivisible.

To speak of political development, it is necessary to define an ideological position: the choice here is obviously of democracy as a form of political organization and, consequently, as the concrete expression of the term “political development”. In proposing a specific political option, this document is merely reviving the best of the Institute’s tradition, expressed for example in the numerous works of José Medina Echavarría.

The relationship between regional development and the functioning of a democratic society is dual, and should be perfectly clear.

On the one hand, a basic precondition for democratic coexistence is a balanced distribution of political power. A society in which the decision-making power is overly concentrated, whether in private groups, public bureaucrats, the governing party or any other organization, is not truly democratic.

It is not only the concentration of power (as a measure of the relative quantity of power

possessed by each agent) which is of interest, however, but also the centralization of power, that is to say, the vertical form in which decisions are made within an organization. In fact, what is really undemocratic is the combination of the concentration and centralization of power. This leads to the conclusion that in attempting to recreate a democratic society, attention must be paid both to the achievement of a more equitable distribution of power among the various social groups (including the State itself) and to the distribution of each share of power among the elements forming the basis of an organization. With respect to the latter aspect, the decentralization of power will mean the transfer of part of the decision-making capacity to intermediate bodies, either public or not, many of which are or should be organized on a territorial basis (from neighbourhood councils to regional development bodies).

What is the role of a regional development project in this matter? It is dual. Firstly, it must determine the best distribution of power among the various territorial bodies, the jurisdiction of many of which will overlap to a certain degree (for example, the regional government and the provincial government). Secondly, it must determine the best possible combination of centralization and decentralization of decision-making power. It is a fact that modern society requires a certain degree of centralization, even if for purely technological reasons, but the need for decentralization is also a fact. Solving the equation of these opposing forces is part of the task of regional development specialists.

On the other hand, and at a different level, there seems to prevail in Latin America a conception of democracy ambiguously associated with the idea of equality, which is an elusive concept. This conception, whose origin probably goes back to the heritage of the French Revolution, has been deformed to the point of turning the notion of equality into one of uniformity, so that the conclusion is drawn that the more uniform and standardized the society, the more democratic the social system. This veritable perversion of egalitarianism *per se* has developed hand in hand with an excessive

degree of State centralization, because an all-embracing central State is clearly a powerful instrument for imposing upon the entire society essentially uniform values, norms, procedures and lifestyles.

This, however, does not imply that the above-mentioned process has not had some positive aspects. Uniformity and centralization have to some extent been the price paid for national unity, an element which has characterized and distinguished some Latin American societies and which, in some respects, continues to attract the attention of the foreign observer. As many have pointed out, however, this unity is more apparent than real, and is in fact based on the extent to which an extremely powerful State succeeds in imposing itself. One immediate consequence of this way of viewing democracy is that the state tends to give perfectly standardized public responses to a variety of local problems, which in turn implies a high degree of inappropriateness, or absolute failure, of such responses.

In other latitudes, the idea of a democratic society seems to be associated more with the concept of "diversity in unity", that is to say, the harmonious coexistence of a variety of development styles within the unifying framework of the Nation. Certainly, this conception

is much more humanistic, since it respects the right of each community to select its form of organization and style of development without, of course, leading to political fragmentation. This view of a society is more democratic not only because it leaves room for a spectrum of social expression, but also because it is more closely associated with the question of the participation of individuals and groups in the formation of their own models for local societies. From the point of view of the State's action, the stereotyped public response is avoided in this format, preference being given rather to a particularized response, deeply immersed in local realities and consequently essentially participative.

It might be appropriate to investigate the extent to which this style of public action could be combined with the traditional, more centralized style in Latin America. Again, the role of a regional development project would consist of furnishing the rationale so that such a decentralized and participatory system could generate viable development proposals consonant with major national objectives and projects. A society which leaves room for regionalism in its proper sense is certainly a more democratic society.

## V

### Conclusions

The preceding pages have reviewed some aspects of the regional planning experience in Latin America that are considered relevant. An attempt has also been made to show the relationship between regional development and the integrated development of society, with special emphasis on the links between regional development and processes of change in the economic, social and political fields.

An initial point which arises from the above analysis concerns a very positive result at the intellectual level: namely, the noticeable change in the capacity for original Latin American thinking in the field of regional development and planning. Over the last decade, the

original sources of influence have given way to independent Latin American thinking (within the limits of what is reasonable in this respect), which is even echoed and taken up in other regions.<sup>38</sup>

The first experiments in regional planning on the sub-continent were sharply influenced by the "TVA model" when the goal was principally the control of river basins, and by the

<sup>38</sup>Proof of this is, for example, the growing quantity of works by Latin American authors which are being published in English, both in Europe and in the United States, and the constant references to Latin American writers appearing in books and texts published in the "centre".

“Cassa per il Mezzogiorno” model when the purpose was industrialization. The 1950s and 1960s represent the peak of the process of importing approaches and ideologies for regional planning: the so-called “European” and “American” schools, associated with names such as Isard, Rodwin, Friedmann, Stöhr, Perroux, Hilhorst, Rochefort, Boudeville, exercised an irresistible influence and sway, which had both positive and negative aspects, on political leaders and the area’s regional planners themselves.

Still in connexion with the renovation movement in Latin American economic thinking, regional planners began to base their proposals firstly on an analysis of Latin American reality, and secondly on their contact with the major concepts of economic thinking being developed in the region, and particularly in CEPAL (centre-periphery, structural, heterogeneity, dependence, planning, etc.). This led to the revision, rejection or adaptation of a large part of the theoretical and methodological baggage that had been imported and to an attempt, which is still going on, to generate original thinking. Since this entire process must be transmitted and discussed, it is perhaps the ILPES international courses on regional planning where this creative process is best expressed and collected.

Today we can truly talk of a “Latin American School” of regional economics, and this should be seen as an extremely important achievement, a direct product of Latin America’s vast experience in regional development programmes.

This experience, as the analysis made in this document shows, has many weaknesses and even fairly obvious errors. It has itself been the product of a necessary but also dangerous process of social apprenticeship: necessary, because any form of planning or attempt deliberately to control and direct social processes in itself implies a process of apprenticeship, and dangerous, since in the successive experiments by trial and error the latter may turn out to be more impressive than the former, thus perhaps contributing to a gradual loss of the activity’s political weight.

It is extremely difficult to evaluate the impact of the Latin American experience in

regional planning, partly due to its variety and lack of continuity, but partly also because there are no appropriate techniques for evaluating plans (beyond partial forms of evaluating the achievement of specific goals), that is to say, evaluation techniques for programmes with multiple targets have not been adequately disseminated and developed. In the case of (intra) regional programmes, evaluation is even more complicated because of the difficulty of distinguishing between the effects of endogenous and exogenous policies on the region. This accordingly makes it impossible to arrive at an overall judgement of the effectiveness of regional development programmes in this and in other cases.

This document has developed, in a fairly explicit manner the following thesis: regional development at the national scale cannot but be considered a necessary precondition for the process of social modernization. Development, understood of course as a much more comprehensive process than mere growth, cannot be achieved unless economic and social policies contain a definite geographical component.

A thesis formulated in this way may not seem very novel. After all, this is generally what planners have been preaching. The point is, however, that we must accept the *triple* dimension of regional development —not only the traditional, economic dimension, but also the social dimension and, most importantly, the political dimension— in a much more concrete way than the general admission that “planning is a political activity”.

But to propose that regional development, and consequently regional development planning, should include these three dimensions would be purely wishful thinking unless attempts are made to specify the factual conditions allowing this thesis to be brought to the level of economic policy decisions.

It cannot be concealed that more than ten years after Friedmann wrote in his book on Venezuela that the regional problem had become a “national” one due to the crisis in centre-periphery relations, this is not yet the case. The “regional problem” is still not perceived as a matter of serious national interest. Consequently, the first requirements for giving re-

gional planning the role it merits is to transform "regional planning" into a national political issue, that is to say, something which is constantly at the centre of society's political discussion. Some specialists maintain that this may never be possible due to the very nature of the regional problem: important, but after all secondary. This reasoning does not seem particularly convincing, however, and other elements may be mentioned whose proper consideration could assist in transforming the regional problem into a political matter; unless such a transformation takes place, it will be difficult to help to solve regional problems.

An adequate effort has never been made to demonstrate that the regional problem is one which affects the great majority of the population: something which should be obvious, but has not been up to now. After all, the majority of the population of nearly all countries lives in the periphery, and in one way or another suffers the adverse effect of the centre's domination.

From another point of view, regional planners have not succeeded in placing the regional problem within the framework properly, especially in terms which express the dominant national concerns: for example, more effort has been expended in exposing the conflict between economic growth and regional development than in demonstrating their association. In particular, since *growth* continues to be a dominant concern in Latin America—and this seems to be appropriate even after the debate on growth generated by the studies of the Club of Rome—then regional planners must demonstrate clearly that regional growth is a pre-requisite for economic growth, as explained above.

Moreover, a larger role for regional planning will certainly depend on the economic ideology prevailing in a given country and at a given time.

It is well known that although everyone recognizes the existence of the "regional problem", its solution is not always conceived in the same way. Strictly speaking, and in fairly general terms, "the regional problem" refers to the hierarchical coexistence within a single territory of different spatial systems and of the corresponding, equally different, processes of

change. The uneven levels of income among regions, changes in the spatial distribution of the population, dominance-dependence situations, etc., are nothing more than the visible and often quantifiable manifestations of the basic problem that has just been described.

In this sense, the prevalence of a purely neoclassical line of thought according to which "the regional problem" is simply an imperfection of the market leaves no room for regional planning. In fact, if the manifestations of the regional problem mentioned above are attributed to the defective functioning of the mechanisms which should ensure the transparency and mobility of the market, then the logical response would be to improve the dissemination of information (opportunities) and the transport and communications systems, as well as to eliminate institutional obstacles to the free movement of the labour force. This leads, as we know, to proposals designed to eliminate differential regional treatment (policies), collective labour agreements and ultimately all forms of trade unionization.

If the prevailing ideology is more development-oriented, the concept of the "regional problem" takes on a different dimension from the one described above, but it is still far from being a comprehensive regional planning approach, for within this perspective the "regional problem" would be considered as an undesirable but inevitable sub-product of the very process of economic growth, and particularly of the machinery for differentiation involved in growth.

The argument takes as a starting point, then, the fact that an economic concentration process is necessary so as to generate the surpluses leading to reinvestment and the subsequent growth of the process itself, with both a sectoral dimension (micro- and macro-economic) and a spatial one: the disproportionate growth of a city or a few cities. The same argument contends that once a certain level of concentration and development has been exceeded the same economic forces—now in the form of diseconomies of scale, drops in the rate of profit and the existence of broader and better transport systems—will lead to a process of territorial deconcentration with a consequent reduction in, for example, interregional income

disequilibria. Similarly, it is maintained in this argument that from the point of view of the overall efficiency of the economy (that is to say, maximization of the growth rate), geographic concentration is desirable, at least at a certain stage. In other words, it is desirable to stimulate the growth of the large cities.

If the reasoning of the concentration-efficiency-deconcentration-equity chain is accepted, the activity of regional development consists of *using the primal city as an economic multiplier and the urban system to support the process of "trickling down"*. The specific policies in this case will be more spatial than regional, that is to say, directed more at improving the functioning of the spatial system than at promoting the development of each region. Specifically, in this case it is a question of applying urban development and transport development policies, as well as those aimed at stimulating sectors and some urban centres.

Finally, if the prevailing economic ideology is part of the "structuralist" stream of thought regarding development, regional problems tend to be considered as part of the structural heterogeneity which characterizes developing societies. From this perspective, the relationship between spatial organization and other types of social processes and structures (for example, the production structure) is considered to be two-way and temporally alternating. In other words, the reciprocal influence of spatial organization and social organization is recognized, and it is conceded that in the long run the spatial structure may determine social structures, though at various stages the relationship may be reversed. This reasoning leads to identifying the "specificity" of regional matters, which is conferred by: (i) the different constellation of natural resources in the territory; (ii) differing access to markets; (iii) the effect of spatial friction during the dissemination process; (iv) the different degree of combination of modern and traditional activities in various parts of the territory; (v) the various forms of domination exercised by the elements of the regional system, and (vi) the unequal distribution of power.

Once the "specificity" of regional matters is accepted, a particular planning subject (dis-

tinct from the "global" or "sectoral" subject) is defined, together with a correspondingly delimited professional field. In turn, this leads to the proposal of *regional* policies and the establishment of *institutions* linked to the management of regional matters. From this point of view, regional planning takes on a comprehensive dimension.

Together with the two factors just mentioned, which are located in the political and ideological sphere, it must also be noted that the role of regional planning in Latin America will also depend on the technical capacity of the regional planners themselves, and particularly on their ability to develop flexible responses to the variety and specificity of local problems. This is a responsibility which is of more direct concern to the institutions involved in professional training in this field in Latin America.

A fundamental question is implicitly posed, however, to which it must be recognized that there is not yet a scientific response: to what extent do processes of expansion such as that of dependent peripheral capitalism leave adequate room for manoeuvring in the implementation of regional development strategies which to a great extent contradict the logic of the overall process?

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## Main challenges of social development in the Caribbean

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The author sees this article as a critical contribution to the work being carried out by the Caribbean Development and Co-operation Committee (CDCC) with a view to formulating a strategy for this sub-region (see the summary of this strategy in the section "Some CEPAL publications" at the end of this volume).

In his opinion, the feasibility of this strategy should be evaluated in historical terms, since the challenges of development are found within the peculiar structure of social forces in Caribbean societies. Thus, he analyses the basic trends which governments seek to reorient, and he outlines the discrepancies between manifest and latent development projects, projects and their implementation, and projects observed at different points in time.

After an introduction in which he presents the general background of his argument with respect to the CDCC strategy, he goes into an analysis of the main economic and socio-political aspects of the colonial period ('total extroversion') and independence ('extroversion modified'), ending with a more detailed description of the distribution of wealth, income and employment, and the causes of such distribution, in contemporary Caribbean societies.

He concludes by emphasizing the objectives which, in his opinion, should guide development strategy; thus, he observes that for CDCC the main problem is to increase the capacity of the countries to formulate and execute development policies, that is, to enhance their ability to mobilize resources — especially their labour forces — through appropriate institutions.

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## Introduction

In 1975, a political grouping of sovereign countries was created in the Caribbean with the expressed objective of strengthening the nation-building processes. The Caribbean Development and Co-operation Committee (CDCC) was established in conformity with resolution 358 (XVI) of the Economic Commission for Latin America, as a permanent subsidiary body of the said Commission at the ministerial level. Its constituent instruments have assigned to the Committee the function of coordinating all activities related to development and economic and social co-operation and the role of an advisory and consultative body to the Executive Secretary of CEPAL in respect of Caribbean issues.

In the principal documents of the Committee and most particularly in its Constituent Declaration, concepts consistent with the referred objective are expanded upon. The documents are based, among other principles, on national sovereignty, non-intervention in internal matters, and mutual assistance. The proposed co-operation is aimed at self-sustained development and self-determination, and these goals are to be achieved by using collective negotiation power to introduce structural changes in a series of institutions inherited from secular and yet unconcluded colonization.

Achievement of political independence, as a structural change and unavoidable condition for formulating and implementing a development project distinct from the colonial one, does not affect all of a sudden the arrangement of day to day intercourse. New subregional objectives transcend with difficulty the spheres of political rhetoric to become efficient parameters of social action. So the project of development proposed by the Committee must alter deeply rooted practices.

Re-orientation of the deployment of sub-regional affairs implies, in fact, the use of institutional instruments — which were adopted precisely under colonialism — in order to defeat colonial patterns of behaviour. It is necessary to analyse and dismantle these mechanisms of social intercourse and to identify the dimensions which have been articulated in spite of and beyond the colonial order. The

feasibility of promoting structural changes within the ideological and economic orders, consistent with the progress achieved at the political level, depends on the extent to which one can harness what was salvaged from colonial exploitation. Otherwise, the heteronomy of the various spheres of social action will continue, as in colonial times, to checkmate any attempt at endogenous development. In this article, social obstacles which restrain or prevent implementation of the political will expressed by the Committee will be registered, and the dimensions from which cumulative structural changes may originate will be signalled.

Life in the colonies is not equally disastrous for all colonized people, and the net result of adaptation to a régime of imposition varies from one social group to another. To aim at modifying institutions and practices which have ensured such a long life for colonialism implies challenging the orientation, not always overt, of the social forces which situated themselves with advantage within the mechanisms of spoliation. The time lag between the political will of the Caribbean governments expressed at the subregional level and the achievement of the proposed goals is due to the long process of readjusting different vested interests. The feasibility of an intra-Caribbean strategy for co-operation and development—beyond its logical consistency and the legitimacy of the agreed goals, and beyond the availability of technical resources or the global benefit for the nation-State considered as a homogeneous entity—is a function of the negotiated support granted to it by concrete and politically active social groups. National sovereignty, endogenous development or autonomy are goals which become reality while progress is achieved in their compatibilization with small or big advantages deriving from humble daily actions. It is at this level that these concrete and identifiable groups which survived colonialism with diverse fortunes have been articulating themselves since the most remote times.

Now, if one considers that the expression by national governments of the political will of the States is, as a stimulating factor for new social practices, susceptible to more or less

important successive modifications, one encounters another series of obstacles to the achievement of self-sustaining development goals. Governments are the result of political processes sensitive to a variety of impacts, among which foreign affairs and more precisely subregional affairs are not *per se* the most relevant. In fact, the electorate and the public in general respond rather to the smooth deployment of routine social interchanges, and international modifications are assessed basically in the light of the extent to which they solve or lessen customary and perceivable conflicts. Therefore, with or without an explicit change in the 1975 political will, a stronger or weaker effort to implement part or all of the proposed goals may be observed. To the inertia in social relations which can be expected to hamper the implementation of the CDCC development strategy must be added, as an additional obstacle, the volubility of the governments themselves provoked by their responses to the dynamic interplay between old and new political forces within the nation.

By 1980, five years had elapsed since the governments in question constituted themselves into a collective decision-making body. The resolution which they themselves proposed and endorsed unanimously makes this ministerial authority the milieu where subregional policies are harmonized for a more rational use of local and external resources. It is assumed that the Committee itself, composed of representatives of governments, speaking in their names, has access to local resources and is empowered to engage them. Besides, it is hoped that the increase in the negotiating power of the block will be accompanied by greater control over the amount and allocation of external resources. Among the latter is the assistance offered by the United Nations and its system of organizations, which should be easy to manipulate, since each and every one of the components of the United Nations system receives mandates from internally homogeneous governments.

The fact is that up to now internal resources earmarked for intra-Caribbean technical assistance have not been pooled together on any noticeable scale. Increasing processes of mutual help come to fruition mainly through

bilateral negotiations, beyond the sphere of the Committee's competence. As for the co-ordination of assistance originating within the United Nations system, even such a simple decision as the maintenance of the same political and geographic coverage for any subregional office of this system is not taken into account by those—other ministers of the Caribbean governments themselves—who instruct the United Nations organs.

While the logical consistency of the global development project formulated in 1975 by the CDCC must be acknowledged, there is need to stress that no clear mechanism has been set up at the national level to co-ordinate the implementation of that project. Thus, intra-sectoral compatibilization (for example, harmonization of a decision subscribed to by a country representative at a CDCC session and a decision subscribed to by a substantive Minister at the General Assembly of a specialized United Nations agency) and linkages between decisions taken at different points in time (for instance, creation of an overall Caribbean information system to be implemented a few years later by the creation of an agricultural information subsystem) are not properly taken care of. Moreover, institutions which are not in direct contact with the governments and which actually are the main actors in daily life are not even aware of the CDCC development project

and cannot therefore be expected to participate actively in its implementation.

These cleavages do have some administrative solution. But their global rationale must be found if any administrative solution is to be efficient. In other words, it must be demonstrated that they do not occur by omission or at random. They are linked with a given pattern of segmented societies and this pattern explains the difficulties in the art of governing the Caribbean, together with the ability of extra-regional decision-making centres to find their own way by manipulating appropriate clusters of social actions.

The feasibility of the CDCC strategy has to be assessed in historical terms. Challenges of social development are located within the peculiar arrangements of social forces which characterize Caribbean societies. In this article, the basic trends which the governments intend to reorient will be detailed and an effort will be made to map out the rationale for the discrepancies between manifest and latent development projects, projects and implementation, and projects observed at different points in time. The political leadership will be observed in conjunction with the interplay of Caribbean social forces and attempts will be made to explain how a project for development with so many difficulties of implementation could come into being.

## I

### Total extroversion

National States are emerging in the Caribbean in a constant challenge to the internal and external forces which consolidated themselves during the expansion and diversification of the plantation system, and which to a large measure are still maintaining the polarized effects of external relations on political, economic and ideological practices within the local societies.

The settlement of the plantation Caribbean was initiated through the seaports, and the projects of expansion and diversification originated abroad and were implemented in

close relation with the administration of the harbour. The plantation and supporting institutions were a creation of mercantile capitalism, and their dynamics a function of external connexions.

The predominance of foreign trade and of the productive activities it generated was the concomitant to the determining role played by the political and administrative apparatus, in relaying dependency relationships at the political, economic and ideological levels. The seaports, as local decision-making centres, became both the seat of public and private

administration and garrison towns. Other relevant units of settlement copied this basic model.

In this setting, wealth was produced by the total monopolization of all available human and natural resources to meet projects of development formulated by external metropolises. Whenever some difficulty arose in the supply of provisions and services for outward-oriented operations, independent pursuits could be tolerated either on provision grounds (subsistence agriculture) or because they offered maintenance services and handicrafts.

Such extroversion of the productive apparatus could establish itself in the economic geography only with a colonial state to implement and administer it. The Caribbean was conceived during the golden age of the plantation system as a set of colonies for exploitation. Projects of development were put into practice without the consent of the bulk of the population, and metropolises which lacked the military power to impose these projects would lose their colonies.

On the economic scene, the predominance of trade interests created a special context for the interplay of the elements involved in productive enterprises. In fact, management and employment were the only factors under the control of these enterprises. The plantation economy operated either with slaves, indentees,<sup>1</sup> or very cheap labour. In all these cases, the bargaining power of the labour force had to be maintained at its lowest possible levels and relationships between labour and management could not be purely economic.

Wages, as an economic relation between employer and employee, appeared in the Caribbean within the framework of public administration, management of import-export activities, management of plantations and enforcement of law and order. During this process

<sup>1</sup>Indentured servants were migrant workers, originally from Europe, who were brought to the colonies to work on plantations. They were semi-slaves, who committed themselves to work for three years in order to pay for their passage; for this reason, in certain territories they were given the name "36 monthers". The contracting of indentured servants developed primarily after the abolition of slavery. In this period, the bulk of the migratory movement came from India.

of underdevelopment, wages were basically limited to non-manual activities, although they also appeared in the hiring of the most highly qualified tradesmen. Nineteenth-century indentureship, as the source of a cheap bonded labour force, emerged precisely in an effort to obstruct the development of a labour market and corresponding economic bargaining between workers and employers. It was not related with the unavailability of salaried work.

Manual and non-manual labour played different roles in a plantation society. The first one was concentrated in the production of material goods. The second one was located in the services sector, and more specifically in the public and private administration of outward-oriented activities. Their normative and ideological context also varied. Originally, the legal framework of manual labour was provided by specific colonial codes, whereas non-manual work tended to respond to norms which were also valid in the metropolises. Manual work, being mainly a rural activity, was carried out in scattered settlements away from the surveillance of law enforcement officers, whereas non-manual activities, concentrated in urban milieux, implied some form of participation in decision-making and law enforcement. Normally, civil authorities dealt with offences of urban employees, while colonial military and para-military groups took care of workers' offences against rural codes. Finally, official languages would be used in the fulfilment of non-manual activities in view of their constant linkage with the outside world, while in manual activities vernaculars were used, apart from any negotiations with outsiders.

Outward-oriented practices of the colonial apparatus constituted the components of public life. Military and political relations, plantation activities and activities within the plantations, communication with the metropole and the metropolitans, formal and on-the-job training for the maintenance, ruling and expansion of the colony, in a word, the whole public and private administration of external relations, was consistent with the demands of mercantilism and the set of norms and values which ruled the empires.

Satisfaction of local needs such as food,

housing and clothing, family relationships, community intercourse, communication among peers, dealing with constant and overt imposition, the whole day-to-day living of colonized people, were practices based on the availability of local resources. More exactly, those resources which escaped the monopoly of the metropole and the metropolitans were harnessed at this level to ensure some form of orderly survival.

Therefore, while governor, merchant, planter, overseer and slave behaved according to codified official regulations in the fulfilment of their public duties, the way they lived their private lives, even though institutionalized, ran parallel to accepted colonial behavior. A domestic slave would have found it very difficult to live like a planter, in spite of being eventually quite knowledgeable of such a way of living. His actions as a slave and, say, a father corresponded to different rationales, which he manipulated constantly.

In the larger territories of the Caribbean, efforts to meet the needs of the population locally started in the framework of maroon societies before and alongside the establishment of plantations. Their subsequent development, either in the same context or on provision grounds granted to the slaves, preceded the peasant economy. Then, the entire subregion experienced an intense development of these inward-oriented activities as the transition from mercantilism to free enterprise capitalism provoked the loosening of the economic hold of external powers on the area. This resulted in a strengthening of the cultural framework regulating the private lives of the population.

Family enterprises in the agricultural sector still had to reckon with the monopoly of land resources, and in many cases they did not evolve beyond some form of *métayage* system. The State machinery worked to protect the landlords by ensuring their control on the natural resources, through a series of laws and regulations preventing the upsurge of a market economy. By legitimizing the concentration of the original set of natural resources, the colonial State set up by the same token the framework for the productive use of available human resources. Absorption of the labour force for

viable economic enterprises remained possible only within the outward-oriented relations or to service such relations. The rationale of socio-economic relations, concerned primarily with local demands, preserved its validity within the range of efficacy allowed by the monopolistic great estate sector and, most particularly, within the limits of the income distributed in the countries and not applied to the importation of goods.

In these circumstances, agricultural unemployment and underemployment developed as a structural element of the Caribbean economy, as a direct consequence of the seizure of both human and natural resources. Various forms of production started to intermingle under the burden of extra-economic constraints: self-subsistence economy supplemented with the collection of edible products, multi-crop peasant economy closely linked with both national and international markets, and several institutionalized arrangements which made possible the transfer to more and more archaic forms of production of some of the hazards of productive ventures. Inward-oriented activities initiated with own-account family ventures and self-employment had to evolve towards a more and more complex integration with the market economy, while legal impediments ensured that there was only the minimum development of a labour market.

The cleavages between outward and inward-oriented activities, public and private lives, are a consequence of the relative autonomy of the political structures within colonial societies. A colony is a territory where a metropole dictates what economic and political practices are to take place. With the decline of plantation economy and the new strategic role bequeathed to the subregion, the relative autonomy of the political structures was further consolidated.

To occupy a territory for basically strategic reasons implied the enactment of specific formulae of social and economic organization. Growth of the extroverted economic apparatus could take place according to the relevance of the products offered on the international markets. To alter this situation by introducing structural economic changes would create link-

ages between sectors and branches, accompanied by a close-knit system of social relations, oriented towards the internal control of government. A colony held for strategic reasons could cease, in this event, to be a loyal group of

subjects, i.e., subjects who are controlled from the metropole. Colonization or occupation cannot be compatible with intense social cohesion and the setting up of local parameters for the development of public life.

## II

### Extroversion modified

A series of violent conflicts took place all over the subregion during the second and third decades of this century. The State and the social forces with a manifest participation in determining its policy—that is to say the import-export merchants and other businessmen, including owners of the local press, the army, the civil servants, the planters and other landlords, intellectuals, trade unions and political parties—were forced to negotiate new social arrangements, whose outcome would be total or gradual self-government.

In view of the cleavages already mentioned between manual and non-manual workers and between private and public life, the bulk of the Caribbean population had until that period scarcely been exposed to administration and management. As self-government was becoming politically unavoidable, the need to prepare public administrators and private managers had to be met. In fact, newcomers to public and private administration had even to learn the language of these activities, to say nothing of the legal instruments through which they were co-ordinated. The dissemination of these norms and instruments through schooling, known as 'education', was initiated under colonial rules.

The replacement of the metropolitan administrators, managers and military personnel by locals, the increase in the service sector accompanying the establishment of foreign military bases, new plantations and activities in the extractive industries allowed for a gradual absorption of school-leavers and the expansion of the 'educational' system. The bi-polar division of the societies became a national feature.

National States succeeded colonial ones.

The main element which differentiates them is obviously government and its *alter ego*, opposition. In the Caribbean, as in any context, there is a need to distinguish between the State and government. The State inherited political forces deeply rooted in the extroversion of the local social systems, and having come into being, these forces grew and strengthened themselves through segmentation and disarticulation of the economic apparatus, and through cultural and political/ideological dependence. The dealers in products with monetary value—the import-export trade and the banking system—still constitute the cornerstone of most successful political alliances. Public administrators and private managers of outward-oriented relations—civil and military servants—are other relevant legacies of colonial times.

National governments emerged to face the challenge of satisfying local demands within a framework set up by outward-oriented relations. Whenever any of the social forces established since colonial or occupation times raised the problem of self-government, the issue of local needs moved *ipso facto* to the forefront of their preoccupations. Historically, social domination in and of the Caribbean, having abused extra-economic forms of coercion, has left unattended important ideological aspects and most particularly those dealing with the legitimization of States and governments. With the accession to political autonomy, governments and forces striving to control this position required some form of legitimacy, that is to say, an accepted project of development geared towards the satisfaction of local needs.

It must be understood in this connexion

that the issue of unemployment and underemployment becomes important with self-government and political autonomy. Large surpluses of labour have been fostered by rulers of colonized or occupied territories to satisfy the requisites of outward-oriented economic ventures. The opposite, that is to say full employment, is an important target in meeting local needs.

The political ladder is therefore the only dimension from which a switch from an outward to an inward-oriented economy can be promoted, in the light of the prevalence and the relative autonomy of power relations in the area. Usually, according to patterns inherited from colonization and occupation, power relations evolve beyond the influence of local economic and ideological practices; in the present context the freedom of action of political leaders is also strengthened by their hinge-like role between traditional (inherited) forces and emerging popular sovereignty. They are the chief negotiators in the nation-building processes and can be considered as real and rather stable institutions. In contexts where efforts are being made to localize main political parameters of Statehood and to lessen the impact of economic dependency on inward-oriented ventures, their manoeuvring facilities are increased.

Nevertheless, in view of the strength of external influences and the risks involved in capitalizing upon emergent political awareness and social mobilization to meet local needs, this freedom of action of the Caribbean leadership may either waste away in daily petty conflicts or resort to practices common during colonial and occupation times. Disruptive outbursts of historically oppressed or 'marginal' masses have already endangered what was achieved through self-government. Political leaders, and possibly their parties too, are innovations within the Caribbean political structures, inasmuch as they require some form of internal support. But this support demands in turn immediate inward-oriented actions, the effectiveness of which is higher whenever the outward-oriented relations are not affected.

The need to satisfy urgent demands in order to secure the support of popular forces competes with long-term policies aiming at

structural changes. The inherited structures of power in which governments are located are not conducive to internal control of the political and economic environment, and long-term strategies are therefore vulnerable. Those who aim at the control of the administrative machinery of the State have a difficult choice between paternalistic clientage and institutionalized social mobilization.

The belated political independence in the subregion had been negotiated by groups of intellectuals, supported by the urban middle classes or organized trade unions. But self-government, as achieved during this century, does not mean the government of activities primarily geared to local demands. This circumstance increases the efficacy of political clientage by obstructing the channels for the legitimization of political power. Progress and setbacks in the efforts towards self-propelled development have to be evaluated against the conditions in which the Caribbean nations acquired control over a public administration basically structured for promoting outward-oriented activities.

The instruments used to implement strategies formulated by governments are all designed along the lines of institutions typified by E. Braithwaite as "those derived from the European or initiating segment of the society".<sup>2</sup>

The proceedings of these institutions are carried on in official languages which, even though understood in most cases by the masses, are scarcely used for discussion and vivid dialogue. Overt political bargaining takes place in these same languages, the degree of mastery of which becomes an unmistakable indicator of social status.

This fact stimulates dependency by lo-

<sup>2</sup>"(The creole) institutions may be divided into two main groups: those derived from the European or initiating segment of the society (legislatures, courts of law, police systems, the established Christian churches, press/mass media, banks, commercial organizations), and those peculiar to the inner plantation: friendly societies and co-operatives that reveal themselves in sou-sou, gyap, landship (Barbados), la rose (St. Lucia), and the spectrum of religious organizations from pentecostal and revival, right through shango, vodun and cumfa." E. Braithwaite: *Caribbean Man in Space and Time, a Bibliographical and Conceptual Approach*, Mona, Sovacon Publications, 1974.

cating the criteria for correction beyond the control of the local population. Thus, definitions and concepts which do not reflect the subregional circumstances are being smuggled into the process of reflection, hampering the development of knowledge and hence efficient planning.

It follows that while the intellectual élites have generated the social criticism which made colonialism and occupation unacceptable, they do not possess or produce the necessary instruments of knowledge to design an inward-oriented policy, let alone to create the mechanisms to discuss it with the population and implement it.

The difficulties experienced by the intellectual élites and the academic community as a whole in seizing local circumstances through cumulative cognitive processes make it nearly impossible for them to find an adequate place for their full realization within the national societies. Out-migration of professionals, irrespective of their political loyalties, appears to be an uncontrollable trend. The divorce between the different creole and official languages is functioning as an apparently normal and natural form of control. It prevents dialogues and negotiations within the nations, and the implementation of plans and projects comes into conflict with the lack of popular participation and the shortage of highly qualified resources.<sup>3</sup>

On the one hand, one observes obstacles to central planning in economies with few relationships of complementarity between their component parts, while international donors

and transnational corporations, on the other hand, are progressing steadily in their planning, implementing strategies which may strengthen the subregional extroversion and postpone the use of available local resources for self-propelled ventures.

These circumstances, while consolidating the freedom of manoeuvring of rulers and opponents, do not stimulate the emergence of indigenous mobilization, and raise the question of the frontiers of social dialogue in the Caribbean as the main obstacle to development.

The frontiers of social dialogue have not yet fully caught the attention of the nations, and the problems raised in the framework of the Western concept of freedom of speech monopolize the awareness of the public in view of various constraints inherited from the still-recent history of colonization and occupation. Worldwide campaigns in favour of freedom of speech have created the habit of focusing attention on the opponents to established régimes, and legitimate concerns have been voiced on the matter. Nonetheless, it is striking that in Caribbean countries which are not known for contravening international norms of free speech, and where a very high level of literacy is already achieved, the reach of the media is still alarmingly restricted. Official opposition and independent media, while polemizing with respect to the population, have not been able to create an audience in the masses. It would seem that the media are not

<sup>3</sup>Certainly, from the perspective of the total society, such a vocationally heterogeneous and inwardly turned population segment creates problems in administration and development. Action programs, aimed at the socio-economic amelioration of such people but based on uni-occupational models developed in modern Western countries, start with limited chances for success. Occupational pluralists in Jamaica will not reject the material aid that often accompanies such schemes but they do reject, as evidenced by their behaviour, the objectives and the intent of these programs. By their own logic, they find it impractical to develop fully one aspect of their economic life to the detriment of the others. The results of the action program designed to improve the Jamaican fishing industry through technological and organizational assistance are significant. In settlements such as Duncans, where fishing is balanced with or subordinated to other pursuits, newly introduced

fishermen's co-operatives —one element in the development program— failed to provide economic cohesion and stimulus and, therefore, died stillborn. In settlements such as Whitehouse, where fishing is more important because of land scarcity, new co-operatives when adapted to local conditions proved more viable and performed relatively substantial services for their membership. The error made by the central authorities was that they introduced one co-operative model designed for full-time fishermen in other parts of the world to all varieties of Jamaica "fishermen". Agricultural development programs on a national scale sometimes suffer similar results for a very similar reason —an incorrect assessment of the pertinent conditions of rural life." L. Comitas, "Occupational Multiplicity in Rural Jamaica (1964)", in L. Comitas and D. Lowenthal (eds.), *Work and Family Life - West Indian Perspectives*, Anchor Press/Doubleday, 1973, p. 172.

able to communicate with the nation as a whole, or not interested in doing so.

It would therefore appear that the relative autonomy of the political forces may be bordering on isolation. Parallel to segmented economic relation, one seems to find clusters of social dialogues, and most initiatives or changes in a given sector of national life do not

easily provoke reactions in society as a whole. Solidarity operates at limited levels and on limited issues, so the political élites—already vulnerable in relation to social forces operating since colonial and occupation times—can not readily utilize the potential of responses theoretically at their disposal.

### III

## Labour and wealth in a dependent context

Caribbean countries, with the exception of Cuba, have evolved gradually from colonization or occupation to their present status. Many of the characteristics of colonial or occupation times are still prevalent in their socio-economic structures and condition their alternatives for social development. There have been no cases of noticeable economic dynamism. Growth derives from the exploitation of new mineral products or from favourable modifications in the prices of traditional exports. No very significant change has been observed in the predominance of external trade, in the set of traditional buyers and suppliers, nor in the volume and value of intra-Caribbean exchanges.

Manufacturing and assembly plants have multiplied. Enclave industries are making use of cheap labour. Tourism continues to expand, most of the time through foreign investment, and in certain cases to the detriment of land ownership by locals. Intersectoral and inter-industrial relationships have not become significantly more integrated: fragmentation and extroversion of the productive apparatus continue to characterize the economy, together with their correlative underemployment of available manpower.

In countries where national governments are rich enough or possess the necessary political strength, public enterprises have been created in key infrastructural and energy-based branches. Nonetheless, in spite of the gradual formation of a rather large group of technocrats skilled in the management of public investments, the entrepreneurial activity of the State

has not overcome the obstacles to inward-oriented and self-propelled development.

Public administration and private management of Caribbean economic resources are still closely framed by parameters located at the international level but operated by local groups. This is reflected in the structure of external trade. In 1974, the value of total external trade was estimated at approximately US\$ 11 143 million, while the gross domestic product for the same year totalled US\$ 6 639.2 million.<sup>4</sup> Intra-regional trade, which is more intense among the CARICOM countries,<sup>5</sup> has not exceeded 8% of the external trade of these countries. Data for Haiti show that its trade with the Caribbean is minimal, not exceeding US\$ 0.4 million in 1974, but nevertheless covers a wider Caribbean market than the Dominican Republic, which has only traded with two CARICOM countries: Jamaica and Trinidad and Tobago (see table 1).

The pattern of external trade is indicative of the Caribbean's outward orientation. The subregion tends not to produce in keeping with its own demand, and to consume according to external supply. The reality of this is stark when one looks at the alarming increase in food-import bills. Data for CDCC countries

<sup>4</sup>Figures are derived from data corresponding to 1974 given in *Economic Activity - 1977 - in Caribbean Countries* (CEPAL/CARIB/78/4). The figures refer to all the CARICOM countries, plus Bahamas and Suriname.

<sup>5</sup>Caribbean Common Market (CARICOM) intra-regional trade, i.e., trade among the West Indies Associated States (Antigua, Dominica, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent), Barbados, Guyana, Jamaica, Trinidad and Tobago, Grenada and Belize.

Table I  
CARIBBEAN COUNTRIES:<sup>a</sup> INTRA-REGIONAL TRADE

Country	Imports (million of US dollars)					
	1970	Percentage <sub>b</sub>	1973	Percentage <sub>b</sub>	1974	Percentage <sub>b</sub>
Barbados	13.5		21.8		35.2	
Belize	2.4		3.6		3.7	
Grenada	5.0		5.9		5.7	
Guyana	18.9		38.7		67.3	
Jamaica	9.1		35.3		71.5	
Trinidad and Tobago	13.4		20.5		30.1	
West Indies Associated States	19.3		25.1		33.8	
<i>Total CARICOM</i>	81.6	5.5	150.9	7.4	247.3	7.1
Dominican Republic <sup>c</sup>	1.7		2.6		n.a.	
Haiti <sup>d</sup>	0.3		0.2		0.4	
<i>Grand total</i>	83.6	4.6	153.7	6.1	247.7	6.8

Source: *Economic activity -1977- in Caribbean Countries* (CEPAL/CARIBB/78/4); *Dossier de candidature. Soumis à la Communauté et au Marché Commun des Caribbes* - Government of Haiti (CEPAL, May 1976); *UN Yearbook of International Trade Statistics, 1976*. Vol. I, Trade by Country. United Nations publication, Sales No. E.77.XVII. 14, Vol. 1.

<sup>a</sup>CARICOM countries, Haiti and the Dominican Republic.

<sup>b</sup>Percentage of total imports.

<sup>c</sup>Figures for Dominican Republic represent imports from the only CARICOM countries with which a trade relationship exists, i.e., Jamaica and Trinidad and Tobago.

<sup>d</sup>Figures for Haiti represent only imports from CARICOM countries and cover the periods 1970/1971, 1972/1973 and 1973/1974.

reveal that between 1965 and 1970 the food-import bill increased by approximately 60%, and between 1965 and 1971 by 83% (see table 2).

Distribution of income in the region is generally biased in favour of the services offered in public and private administration and management. The qualitative and quantitative importance of white-collar and other non-manual occupations therefore remains significant. The proportion of white-collar workers in the total paid employees is indicative of this persistent prevalence of administration and management over productive activities. Data available for Jamaica and Trinidad and Tobago show that 52% and 43% respectively of paid employees are non-manual. In other cases, the published tables do not allow this distinction to be made. The total number of non-manual workers, paid or otherwise, is equivalent to 30% in St. Lucia, 34% in Grenada, and 48% in Barbados, for example (see table 3).

Table 2  
CARIBBEAN COUNTRIES:<sup>a</sup> TOTAL IMPORTS, FOOD IMPORTS AND RELATIVE CONTRIBUTION OF FOOD IMPORTS TO TOTAL IMPORTS, 1965 AND 1970-1971

(Millions of East Caribbean dollars)

	1965 <sup>b</sup>	1970	1971
Total imports	3 361	6 684	7 769
Food imports	641	1 034	1 172
Food imports as a percentage of total imports	19.1	15.5	15.1

Source: *Agricultural Statistics of the Caribbean Countries, 1976*, CEPAL/POS/76/5.

<sup>a</sup>CDCC countries: Bahamas, Barbados, Cuba, Dominican Republic, Grenada, Jamaica, Guyana, Haiti, Trinidad and Tobago and Suriname.

<sup>b</sup>No data available for Haiti.

Table 3  
NUMBER AND PROPORTION OF NON-MANUAL AND MANUAL WORKERS IN SELECTED TERRITORIES

Country	Non-manual (white-collar and services) (%)	Manual (%)	Other (%)	Total
Barbados	48	50	2	82 486
Grenada	34	64	2	25 799
Jamaica	52	48	n.a.	424 600
Trinidad and Tobago	43	57	n.a.	369 600
St. Lucia	30	68	2	26 068

Source: *Jamaica: Labour Force 1976*, Department of Statistics, Jamaica; *Trinidad and Tobago: Labour Force, CSSP*, Publication No. 36, Central Statistical Office, Trinidad; *University of the West Indies: 1970 Population Census of the Commonwealth Caribbean*, Vol. 4, 1976, Economic Activity Census Research Programme.

The proportion of the labour force absorbed by the primary sector is relatively high, although it varies from one country to another.

Thus, the proportion of workers in the agricultural sector in comparison to those employed in the overall economy ranges from 16.3% in Trinidad and Tobago to 35.6% in the ECCM countries. The proportion for Jamaica is 34.1% (1970) (see table 4).

The patterns of agricultural production which have evolved in the subregion are the result of forms of adaptation to the historically persistent monopolization of land resources.

Recent census data and agricultural statistics show that a high percentage of farms cover less than 5 acres each. These occupy only a minimal part of the cultivated land, while farms of 500 acres and above are very few in number but cover extensive areas of such land. The trend is consistent throughout the Caribbean. The data for the English-speaking Caribbean show that holdings of 5 acres and less represent between 75% (Dominica) and 89% (Barbados) of the total number of holdings, yet occupy only about 15% of the total area of cultivated land. The situation is similar in Haiti, where holdings of 6 acres and less occupy 25% of the cultivated land but represent 89% of the total number of holdings (see table 5).

Table 4  
EMPLOYMENT STRUCTURE BY COUNTRY: 1960 AND 1970

Country	Year	Total employment	Agriculture (%)	Industry (%)	Services (%)
Barbados	1960	84.6	27.0	36.6	36.4
	1970	84.6	17.9	28.6	53.5
Guyana	1960	160.3	37.1	28.6	34.3
	1970	159.4	29.6	25.7	44.7
Jamaica	1960	569.7	40.4	23.9	35.7
	1970	495.8	34.1	24.6	41.3
Trinidad and Tobago	1960	259.9	21.6	29.7	48.7
	1970	232.2	16.3	31.9	51.8
ECCM countries	1960	121.0	48.0	22.6	29.4
	1970	109.7	35.6	22.7	41.7
Total region	1960	1 195.5	35.7	26.6	37.7
	1970	1 081.7	28.5	26.4	45.1

Source: N. Abdulah, *The Labour Force in the Commonwealth Caribbean: A Statistical Analysis*, University of the West Indies, St. Augustine, Institute of Social and Economic Research, 1977.

Table 5  
AGRICULTURAL HOLDINGS: SIZE AND PER-  
CENTAGE OF CULTIVATED LAND

Country	Percentage of all farms		Percentage of farmland	
	Less than 5 acres	Over 500 acres	Less than 5 acres	Over 500 acres
Antigua	91.1	0.3	26.7	42.2
Barbados	98.3	0.2	13.4	31.3
Dominica	75.2	0.3	13.2	32.2
Grenada	89.7	0.1	23.9	15.0
Guyana	n.a.	n.a.	n.a.	n.a.
Haiti <sup>a</sup>	89.0	n.a.	25.0	n.a.
Jamaica	78.6	0.2	14.9	44.9
Montserrat	92.7	0.7	n.a.	n.a.
St. Kitts	94.5	0.4	15.0	56.6
St. Lucia	82.5	0.2	18.0	33.8
St. Vincent	89.0	0.1	27.0	24.2
Trinidad and Tobago	46.5	0.3	6.9	31.1

Source: *Agricultural Statistic of Caribbean Countries, 1976*, CEPAL/POS/76/5: George Beckford (ed.), *Caribbean Economy*, University of the West Indies, ISER Publication, 1975.

<sup>a</sup>Less than 6 acres.

With the persistent concentration of available land resources in very few hands, the basic arrangements for agricultural production have remained relatively unchanged. Several organizational modifications have taken place, but they do not seem to favour an increase in employment nor a more balanced distribution of income. While multi-crop subsistence agriculture, production of staple commodities for local markets, and production of export commodities by small landholders are progressing and intermingling, one does not observe the emergence of a strata of small independent farmers among the original group of self-employed agricultural workers.

On the contrary, available data seem to indicate a serious stagnation in the situation of inward-oriented agricultural ventures. The Report of the Tripartite Economic Survey of the Eastern Caribbean (January-April 1966) states, in relation to Barbados, the Leeward and Windward Islands:

“At present agriculture is almost entirely orientated towards the production of export crops. There is a highly organized institutional framework serving these crops, while nothing comparable exists for foodcrops and livestock. The most critical deficiency in this field is normally in the marketing arrangements, in sharp contrast to the export crops, which are usually also supported by schemes supplying fertilizers, spraying, research, extension services and credit facilities. Foodcrops receive little or none of this type of support”.<sup>6</sup>

In Montserrat, the same report registers an interesting involution: after the hired labour which followed emancipation came sharecropping systems, which gave place during the 1950s to cultivation on plots rented for short periods. It is quite common to observe the resurgence of new forms of plantation, through the disguised dislocation of the original productive unit and effective control of the marketing processes. In certain countries, monopoly in the marketing of the export staple allows all operating risks to be transferred to a myriad of apparently independent and autonomous producers, who become in fact, “wage earners paying their own wages”. The situation in St. Lucia is a case in point.<sup>7</sup>

In other areas, the rural labour force has been involved in a variety of economic practices which have brought them, sometimes

<sup>6</sup>G.V. Doxey *et al.*, *Report of the Tripartite Economic Survey of the Eastern Caribbean, January-April 1966 - Summary of the Report*.

<sup>7</sup>A report prepared for the Caribbean Development Bank states in the case of St. Lucia, for example: “It is clear that this sector (small-farm sector) operates not simply at a distinct disadvantage but at the mercy of the estate sector, in terms of the availability of land, capital, farm inputs such as fertilisers and irrigation facilities, and infrastructural facilities such as roads. (...) Given the long history of exploitation and of poverty within the small farm sector, the current exodus from Agriculture in general and Bananas in particular is not surprising. (...) It can be said that this decline is to be explained (at least immediately) by the poor marketing arrangements, low returns in relation to costs, communication gaps and blockages in the relationship of the small farmer to Geest Industries and the Banana Association, and finally the powerlessness (real and perceived) of the small farmer vis-à-vis the above two organisations”. Weir’s *Agricultural Consulting Services Limited, Jamaica, Small Farming Study in the Less Developed Member Territories of the Caribbean Development Bank*, Vol. 1 (a), Country Reports, Bridgetown, Barbados, Caribbean Development Bank, 1975, pp. 76-77.

during one single day, from one type of organization to another: from typically self-subsistence peasant economy, to family exploitation linked with the national market, and to wage-earning work on plantations (or in urban trades). Each member of this segment of the labour force combines forms of economic behaviour corresponding to different models of production. Such cases have been studied in Jamaica and Barbados,<sup>8</sup> and are common in most countries.

One also observes, on the same piece of land, combinations of different forms of economic organization operated by totally different entrepreneurs. In certain flat lands of Haiti, planters are willing to establish sharecropping contracts with independent peasants, if they agree to produce sweet potatoes. The furrows which separate the beds prepared for receiving the stems of sweet potatoes are utilized by the planters to plant sugar-cane shoots.<sup>9</sup>

These examples, as well as the fact that a large proportion of paid employees are non-manual workers, stress the need to investigate forms of absorption of the labour force which escape the institutional mechanisms governing

<sup>8</sup>"A functioning peasantry, in any rigorous sense of the term, does not exist in contemporary Jamaica and perhaps never existed in the past. Over the years, following Emancipation, large numbers of poor rural Jamaicans found it necessary to combine several economic activities in order to subsist. Affected by the insecurities of own-account cultivation on minuscule, sub-standard fields, by the labor demand of plantations and large farms, and by the irregularity of other wage employment, these people developed a way of life based on a system of occupational multiplicity which maximizes as well as protects their limited economic opportunities and which in turn influences the nature of their social alignments and organization." L. Comitas, *op. cit.*, pp. 163-169

In the case of a Barbadian community, one reads in J. Handler: "Aside from small-scale cane farming, many people are likewise engaged in other cash-producing activities, including the raising of income-producing livestock (...) the cultivation of minor cash crops, wage labor on the lands of other small farmers, and even occasional employment in the village's small pottery industry. People also follow a number of other occupational pursuits, some of them not directly associated with land use. (...) Chalky Mount is a community consisting neither of a landless rural proletariat nor of a peasantry". J. Handler, "Some Aspects of Work Organization on Sugar Plantations in Barbados (1965)", in L. Comitas and D. Lowenthal, *op. cit.*, pp. 97-98.

<sup>9</sup>Serge Larose, *L'Exploitation Agricole en Haïti, Guide d'Etude*, Martinique, Centre de Recherches Caraïbes de l'Université de Montréal, 1976.

salaried relationships and collective bargaining. The demand for manpower in the Caribbean is satisfied through channels located beyond the reach of the institutions designed to ensure some form of income distribution. The vulnerability of agricultural entrepreneurs in relation to external and outward-oriented socio-economic forces is worsened on the one hand by the availability of agricultural products originating in industrialized countries, and on the other by natural disasters such as droughts, floods and hurricanes. The economic geography of the Caribbean is becoming increasingly marked by food shortages, and recently cases of famine have occurred in some countries.

The inherited outward-orientation of public and private administration of available resources creates a context for the development of labour relations whereby the working population is forced to have recourse to a number of stratagems to survive. The scope of internationally accepted concepts and of traditional labour organization does not embrace the new occupational categories which have appeared. The present methods and techniques of manpower planning are not suitable for dealing with the present problem of unemployment and underemployment.

The satisfaction of local needs in the Caribbean was originally secured through independent own-account activities, whose purest expression is peasant forms of production. These patterns of activity with characteristic mechanisms for absorption of the labour force are not only prevalent in the countryside but have also spread to the urban areas, giving rise to what is known as the informal sector. Moreover, the evolution of inward-oriented economic patterns, under the stringent conditions laid down by the asymmetric relations between developed and underdeveloped countries, have fostered the multiplication of traditional forms of employment and provoke the emergence of unknown relations between archaic and modern enterprises.

Nowadays, most self-employed workers are persons available for any agricultural, industrial or service activity. Their employment situation was typified by L. Comitas in

the quotation given earlier in this article.<sup>10</sup> Cases studied in Barbados by J. Handler<sup>11</sup> show that own-account activities and occupational multiplicity are intimately linked with wage labour. In other words, insufficient remuneration and the restricted number of wage-earners are stimulating the constant renaissance of traditional forms of employment and making it impossible to group the whole labour force in relations typical of market economies.

Further indicators reveal the disparity of employment and remuneration in the various sectors. A comparison of wages highlights not only the wage differentials by sector, but also by types of work, whether manual or non-manual. Data showing wage indexes by occupation for the English-speaking Caribbean indicate the great disparity between some territories: the wage of a professional (accountant) may be as little as three times that of a manual worker (Jamaica) or as much as twenty times that of the latter (St. Kitts-Nevis) (see table 6).

The increase in the number of enclave industries and the development of extractive activities do not seem to modify the employment problem, but they do accentuate the wage differentials. This disequilibrium between manual and non-manual work may well increase through their impact, since they are concomitant with the development of modern services like banking, consultancy, auditing, advertising and mass communication, and the like.

From these data, it appears that a most significant innovation has been introduced in the mechanisms of absorption of manpower. Since own-account ventures are embryos of economic enterprises, they offer at the same time both material goods and labour services. This flexibility allows the smooth operation of seasonal and cyclical variations in the demand for wage-earning labour, particularly in the agricultural sector, and the need for the real wages received during a given period to correspond to the total amount of goods and services necessary for subsisting from one cycle to another is obviated. This increase in the alter-

native economic practices available further defuses the bargaining power of manual workers by demanding their attention on different issues, apparently inconsistent one with another, and hampering the formation of institutionalized instruments of income distribution. The unit for the analysis of the labour force becomes dual, thus leaving common economic theories and labour legislation completely at a loss as regards understanding and regulating labour relations.

Furthermore, the separation between production units and marketing enterprises gives the latter a favourable position for protecting their rate of returns. The growing predominance of commercialization not only increases the precariousness of productive activities so polarized, it also influences the mean rate of profit capable of attracting local investments as well as the level of risks an entrepreneur is ready to face. Lucrative activities become those which offer rates of return and security similar to those of commerce. Long-term projects capable of modifying national productive structures are not attractive to private enterprises, and the State machinery becomes the instrument responsible for changing the economic environment.

Since stable and well-paid employment is to be found among white-collar workers involved in public and private administration and management, industrial ventures which aim at servicing the local market are geared towards satisfying the white-collar sector of the labour force, which controls the core of the local purchasing power. A structural impediment to the multiplication of productive employment geared towards satisfying local needs then arises from the total income distributed to the white-collar sector of the labour force. The amount of money earmarked for payment of wages in inward-oriented productive sectors must be less than the total income of white-collar workers, less the profit of the enterprises and the money transferred to foreign-based owners of patents and technologies.

So, even in cases of State-owned enterprises geared to the needs of local consumers, there is a limit to their absorption of the available labour force. An excess of monetary resources owned by the State and managed by

<sup>10</sup>See footnote 8.

<sup>11</sup>J. Handler, *op. cit.*, pp. 95-126.

Table 6  
 CARIFTA STATES, 1973: WAGE INDEXES BY OCCUPATION  
 (Wage of general labourer = 100)

Country	General labourer	Mechanic	Accounted
Jamaica	100	213	328
Trinidad and Tobago	100	172	589
Guyana	100	227	731
Barbados	100	174	577
MDC mean <sup>a</sup>	100	196	530
Belize	100	158	1 167
St. Lucia	100	333	1 250
Grenada	100	299	690
St. Vincent	100	429	842
Dominica	100	259	844
Antigua	100	299	690
St. Kitts-Nevis	100	239	2 041
Montserrat	100	282	658
LDC mean <sup>a</sup>	100	273	974
CARIFTA mean <sup>a</sup>	100	238	772

Source: ILO Report of the Preparatory Assistance Mission for vocational training in the Caribbean region. Table 3.1. ILO Caribbean Office, 1977.

<sup>a</sup>Unweighted.

governments cannot easily be invested in productive ventures without disrupting the whole scale of salaries and jeopardizing the outward-oriented activities, which sustain the daily socio-economic practices. Under the present circumstances, an excess of State-owned monetary resources calls for an extension in the social services, i.e., a further increase in the services sector.

The mechanisms which concentrate most of the income distributed within the urban areas, and the subsequent difficulties in expanding inward-oriented industrial activities, thus leave very narrow margins for accommodating other economic initiatives. Own-account productive activities, maintenance services, and all forms of retail trade remain, with the public services, as the main channels of income distribution.

The difficulty of multiplying the employ-

ment of manual workers and the complete lack of dynamism of own-account agriculture on the one hand, and the impossibility of expanding white-collar employment at a pace similar to the production of school graduates on the other, join together to produce an uncontrollable movement of out-migration. Depopulation is reaching levels which are quite embarrassing in the poorest countries. It is urgent to assess the number of nationals living abroad, for it would seem that some countries of the area have a majority of the salaried labour force working outside their national borders, in conditions which escape the control of national institutions. The Caribbean has partly or totally become a net exporter of both qualified and unqualified workers.

The living conditions of Caribbean workers outside their countries of origin is an object of concern. It is known that the bulk of

Caribbean migrants are far from entering the middle strata of their host country, yet their salaries are reduced by a substantial portion

which is remitted to their families at home for consumption purposes. So pauperization abroad or at home is a serious threat.

## Conclusion

In summary, the major role played in the internal economic processes by the social groups responsible for the activities of the Caribbean seaports is an indicator of the distance to be covered in an effort to meet local needs with local resources. Collective self-reliance is a formidable challenge for the subregion. Its political and intellectual élites have emerged or strengthened themselves with accession to self-government and independence, but their search for legitimization is hampered by institutions and instruments for social dialogue inherited from ill-recent colonization or occupation. Long-term policies aiming at structural social changes and re-orientation of economic activities are limited in their implementation due to the resistance of traditional administrative practices framed by long-standing outward-oriented relationships. In contrast, short-term measures consistent with the dependency structures have an efficacy which indeed reproduces the segmentation and low level of cohesion within the subregion, but nevertheless offers respite in cases of conflicts and crises, while know-how and planning for self-reliant development remain embryonic.

Within this context, it suffices to read the CDCC Overall Work Programme to have a prospective view of the main challenges for social development during the next decade, as diagnosed by the political leadership of the subregion.

It should be recalled that the representatives of the member governments stressed during their second session at Santo Domingo in March 1977 that horizontal co-operation, that is to say, mutual assistance among the Caribbean countries, is the cornerstone of their strategy. It follows, then, that the greatest challenge for the years to come lies in the implementation of such an innovation in the art of governing underdeveloped countries. The

onus of social development rests with the governments and their ability to make the sacrifices required both in granting assistance to neighbouring countries and receiving it from them. The common denominators which were defined at the creation of the CDCC will have to continue to be articulated alongside the variety of political and ideological standpoints of the subregion, and be gradually expanded.

The principal problem affecting the majority of Caribbean countries which was emphasized by the Committee was the "lack of experience, resources and adequate institutions for formulation and implementation of economic and social development policies designed to attain full and productive employment of the labour force" (CDCC Work Programme). The fate of the Caribbean during the 1980s is linked to its success in mobilizing its resources and most particularly its labour force in productive ventures through "adequate institutions". It is in fact a question of reversing the whole process of extroversion and hence the problem of bargaining power within and outside the countries.

The first chapter of the Work Programme deals with technical co-operation among the Caribbean countries, where a policy of sharing the capacities and experiences of the countries themselves is viewed as "an essential prerequisite for collective action aimed at substantive changes of mutual benefit". Preliminary steps toward implementation of this mandate have been taken with the creation of the Caribbean Documentation Centre; and other measures such as programmes for the removal of language barriers and the creation of Caribbean Councils for Science and Technology and for Social and Economic Development are being studied. Scientific ideas geared to local circumstances are to be diffused throughout the subregion, and its balkanization is gradually to be cancelled out. Emphasis is laid on four

specific areas of prime concern in the inward-oriented development process: housing, food production, public health and education.

At this level of detail, difficulties arise in view of the number of specific vested interests that are affected. The same problems of compatibilization among the Caribbean governments alluded to earlier have to be solved in each case, and this clearly means that they must be tackled at the level of the society at large. The Caribbean must become the basic frame of reference of the populations in the 1980s. Advances in this direction can be seen among countries which have been occupied by the same colonial powers. The challenge consists in crossing these traditional boundaries.

The set of modifications aimed at in the agricultural economy of the subregion implies active participation by the rural populations in the development process. Taking into account the traditional position of rural dwellers in Caribbean societies, social mobilization of that stratum seems far more difficult to achieve than any other goal. Governments will not be able to enlarge the scope of measures designed to favour the rural populations without profound changes in the ideological structures of the subregion. Institutions and attitudes inherited from colonial and occupation times viewed non-urban dwellers as ignorant or irrational human beings. Such is the prevalence of these outward-oriented ideologies that discrimination against rural adults is not perceived as an issue. To destroy the paternalistic approach, to infuse into the national societies respect for the rural populations —incidentally, the bulk of the Caribbean people— and to ensure their accession to the status of valid partners for development would be a major achievement.

Beyond much-needed projects for structural economic changes such as land reform, employment, upgrading of agricultural outputs, etc., on the one hand discrimination must cease against languages, religions, forms of family organization and patterns of co-operation pertaining to rural dwellers, while on the other, programmes of formal and life-long education must systematically teach town dwellers not only the validity of rural standpoints, but the very existence of such stand

points. Before the end of this century, reciprocal exchanges of ideas between the two segments of Caribbean societies, and communication between the different peasantries of the subregion, must materialize if development is to be achieved at all.

The goals set up for the industrial sector—substantial growth in manufacturing, correction of external disequilibria through import substitution, and subregional trade— call for re-allocation of social groups traditionally involved in other activities like commerce and speculation. A renewal in the Caribbean economic élites is in sight, and the role played by the State as an entrepreneur is not unrelated with the corresponding trends which will have to be accelerated. Parallel with this, several modifications must be made in the labour market, and most particularly in the remuneration of manual workers, if the purchasing power of the population is to evolve along with industrial development.

Maritime transportation and the exploitation of marine resources are another important area where innovations in social relations will have to be faced. Fishermen and seamen in general constitute one of the most deprived strata in the subregion. Betterment in their living and working conditions, as well as upgrading of their skills, must take place during the next decade. Implementation of a Caribbean-wide development policy is inconceivable without their involvement.

At the international level, the constituent documents of the CDCC refer to four different contexts within which the patterns of social relations maintained by the member countries are to be reoriented and intensified. The Committee's work programme is compatible with the common interests pursued by:

- (1) the developing countries in general;
- (2) the Latin American countries, with special reference to relations with countries in the sphere of action of the CEPAL Offices in Mexico and Bogotá;
- (3) the Caribbean countries, with special reference to relations with less-developed countries affected by their limited population and territory.

Moreover, the Committee grants due con-

sideration to the diversity of situations within the countries themselves.

New terms of social negotiation are needed to modify the weight given in international relations to the traditional partners of the Caribbean and to correct the asymmetrical processes of development within any given country. The negotiations of the CDCC member states with others and the negotiations between those making up each member State, translated into the policy formulations and political activities implied in the work programme, assume an awareness of specific interests and the sharing of knowledge, norms and values by the population at large. Social cohesion within the Caribbean determines the orientation of governmental activities and the extent to which progress is feasible. Significant changes in the traditional system of international loyalties must be accompanied by the emergence of self-reliant citizens capable of supporting national foreign policies.

In their present state, the Caribbean social sciences would never be able to meet these challenges. The next decade should therefore witness a complete reform in these sciences. Research must unearth the rationale of the local forms of living, and teaching must be subject to relevant findings on the local societies. Progress must be made in the study of the labour force, manpower planning, and the role of women in development, while migration and other population trends must be clarified. Furthermore, the social scientists will face the need to find for themselves a proper place in the Caribbean societies, thus controlling their own out-migration process.

The educational system has been the main

vehicle of cultural dependence. The years to come will reap the results of ongoing efforts aimed at enhancing the relevance of formal education to the specific conditions of the sub-region. Conflicts may arise with the mass media if the approved CDCC Work Programme of Life-Long Education is not implemented. This at present comprises proposals for the Caribbean-wide production of printed and audio-visual materials and the creation of a subregional network of centres for cultural retrieval and animation, which will contribute to the process of mobilization and participation of the mass of the population. The main avenues and instruments of dialogue should thus be created during the next decade, and hopefully less obstacles should stand in the way of social mobilization and cohesion. The urgency of greater involvement of the populations in the series of issues raised by the Committee will probably provoke a higher rate of expansion in life-long education as compared to formal education.

The use of local languages for discussing and negotiating local problems could be institutionalized during the next decade and the problem of teaching official languages as second languages solved. Retrieval of oral literature will assist in the fight against illiteracy, and the mass media will have to consider a re-orientation of their messages in view of the formidable increase in their audience. The capability of the countries to harness their potential to combat cultural dependence will be a major issue of the ideological conflicts to come. There will be a need to create adequate institutions to prepare the countries for these ideological conflicts.

## The Latin American periphery in the global system of capitalism\*

*Raúl Prebisch\*\**

In a series of articles, appearing above all in this *Review*, the author has gradually been giving form to his mature view of the economic, social and political structure and transformations of Latin America. In this process of further perfecting his ideas by giving them greater depth and coherence, the present article represents a major step, being a concise summary of the main lines of thought which he is developing in three closely interrelated spheres.

To begin with, he returns to his long-standing concern for the relationship between the centres and the periphery, which he analyses in the light of a number of salient features of the contemporary scene. In his opinion, the topic is of the utmost importance, in that the nature of those relations conditions, limits and orients the Latin American countries' forms and possibilities of development. Secondly, he broaches the question of the internal dynamics of peripheral capitalism in order to throw light upon its main components, contradictions and trends. Thus, he asserts that peripheral capitalism is driven by its internal contradictions towards structural crises which it can overcome only by turning to authoritarian political régimes. This thesis has a corollary which is the starting point for his third line of thought: a stable and democratic solution to those structural crises calls for a profound change in the bases of peripheral capitalism, and particularly of its predominant forms of appropriation and use of the surplus. As a contribution to thinking on this controversial topic, he outlines his theory of change, guided by the hope of finding a synthesis of liberal and socialist ideals.

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## I

### The dynamics of the centres

Peripheral development is an integral part of the world system of capitalism, but the conditions in which it takes place are different from those in the centres, whence the specificity of peripheral capitalism.

Technology plays a fundamental role in this: its development in the centres is accompanied by continuous changes in their social structure, and this is also true of the peripheral countries when the same technology penetrates them much later. The relations between the two correspondingly alter.

In the course of these continuous changes, some highly important constants are to be found. We shall mention the main ones.

While exerting considerable influence on peripheral development, the dynamics of the centres is limited in scope, on account of the centripetal nature of capitalism. Thus it fosters peripheral development only to the extent that concerns the interests of the dominant groups in the centres.

The centripetal nature of capitalism is constantly manifested in the relations between the centres and the periphery. It is in the former that technical progress originates and that the benefits of the concomitant rise in productivity tend to be concentrated. Thanks to the higher demand which accompanies the rise in productivity, industrialization is likewise concentrated there, spurred on by ceaseless technological innovation which diversifies the production of goods and services to an ever greater extent.

Thus, in the spontaneous course of development the periphery tends to be left on the margin of this industrialization process in the historical evolution of capitalism.

Rather than deliberate, this exclusion is the consequence of the play of market laws at the international level.

At a later stage, when becoming industrialized as a result of international crises the periphery again tends to be shut off from the major trade flows in manufactures of the centres. The periphery has had to learn to export, and it is doing so primarily through its

own efforts, as the transnationals have contributed far more to the internationalization of forms of consumption than to the internationalization of production through trade with the centres.

This largely explains the inherent tendency towards external disequilibrium in past and present peripheral development: an attempt has been made to correct this tendency first through import substitution and subsequently through the export of manufactures.

The centres have by no means encouraged this process through changes in their production structure; and by failing to open their doors to manufacturing imports from the periphery, they force the latter to continue with import substitution. Substitution is not the result of any doctrinaire preference, but rather something imposed by the centripetal nature of capitalism. However, it has been taking place within narrow national compartments, at the expense of economic efficiency and of vigorous development.

The economic interest of the dominant groups of the centres form a cluster with strategic, ideological and political interests in the centres, giving rise to stubborn forms of dependence in centre-periphery relations.

In those relations, the economic interests of the dominant groups of the centres are articulated with those of the peripheral countries, and in the play of these power relations the technical and economic superiority of the former weighs heavily. The structural changes which accompany the development and spread of technology are highly important. In the periphery, besides their significance for its development these changes eventually give

rise to disruptive pressures when the internal conflictive tendencies characteristic of development spill over towards the centres, where they arouse an adverse reaction from the power cluster. This is a clear manifestation of the above-mentioned dependence.

The economic interest of the dominant groups continues to prevail in the centres as in the periphery. Its efficiency in the market, at the national and international level, cannot be denied. But the market, despite its enormous economic and political importance, neither is nor can be the supreme regulator of the development of the periphery and of its relations with the centres.

This is patently clear in the present crisis of those relations. The market has not been able to cope with the ambivalence of technology, which has had an incalculable effect on material wellbeing, but has also brought irresponsible exploitation of non-renewable natural resources and a striking deterioration of the biosphere, not to mention other serious consequences.

Nor have the laws of the market remedied the major flaws in centre-periphery relations, nor still less the exclusive and conflictive tendencies in peripheral development.

Individual decisions in the market-place must be combined with collective decisions outside it which override the interest of the dominant groups. All this, however, calls for a great vision, a vision of change, both in peripheral development and in relations with the centres; a vision based on far-reaching projects combining farsighted economic, social and political considerations.

## II

### The internal dynamics of peripheral capitalism

The dynamics of the centres does not tend to penetrate deeply the social structure of the periphery; it is essentially limited.

In contrast, the centres propagate and spread in the periphery their technology, forms of consumption and lifestyles, institutions,

ideas and ideologies. Peripheral capitalism increasingly draws its inspiration from the centres and tends to develop in their image and likeness.

This imitative development takes place belatedly in a social structure which differs in

major respects from the developed structures of the centres.

The penetration of technology takes place through capital accumulation, in terms both of physical means and of the training of human beings. As the process develops, changes continuously take place in the social structure, which embraces a series of partial structures linked together by close relations of interdependence; the technical, production and employment structures, the power structure and the distribution structure. These changes must be analysed to throw light on the complex internal dynamics of peripheral capitalism.

### 1. *Structural changes, surplus and accumulation*

The penetration of technology gradually creates successive layers of rising productivity and efficiency which are superimposed upon less productive and efficient technical layers, while at the base of this technological structure precapitalist or semicapitalist layers usually persist. These changes in the technical structure are accompanied by changes in the employment structure, as labour is continuously shifting from the less to the more productive layers. However, the income structure does not develop in line with the changes in technology and occupation. Thus, the mass of the labour force does not increase its earnings correlatively with the growth of productivity in the play of market forces.

This is explained by the regressive competition of the new manpower in the technical layers of low productivity, or else unemployed, which is seeking to enter productive activity. Only a part of the fruits of technical progress are transferred to a limited fraction of the labour force which, above all through its social power, has been able to acquire the ever greater skills required by technology.

The part of the fruits of higher productivity which is not transferred constitutes the surplus, which is appropriated primarily by the upper social strata, where most physical capital as well as land ownership are concentrated.

The surplus does not tend to disappear through a fall in prices resulting from competition among enterprises—even if this were un-

restricted—but rather is retained and circulates among them. This is a structural and dynamic phenomenon. The growth of the production of final goods, thanks to the continuous accumulation of capital, means that there must be a preceding growth of production in process which will later give rise to the final goods. For this purpose, enterprises pay higher incomes, giving rise to the greater demand which absorbs the final supply increased by the growth of productivity, without prices falling.

In fact, the incomes thus paid in the successive stages of the process (including the surplus) through the creation of money are much greater than would be necessary to prevent prices from falling. The reason for this is that only part of those incomes immediately becomes demand for final goods. Another part is diverted towards demand for services, in the market and the State spheres, where it circulates and gradually returns to demand for goods. In addition to the incomes paid to factors of production, enterprises purchase imported goods, and thus the exporting countries recover the incomes they paid in producing them as well as the corresponding surplus. The opposite occurs in the case of exports.

There is no strict correspondence between demand for goods and supply, but the necessary adjustments are made spontaneously or through the precautionary corrective intervention of the monetary authority when the capacity for sharing out the surplus has not yet developed.

The unequal distribution of income in favour of the upper strata encourages them to imitate the forms of consumption of the centres, an imitation which tends to spread to the middle strata. The privileged-consumer society which thus develops represents a considerable waste of capital accumulation potential.

This waste concerns not merely the amount but also the composition of capital. Closely linked with the technology which increases productivity and income, use is made of technology which constantly diversifies production of goods and services. As this change occurs in the production structure, together with other forms of investment, the proportion of non-reproductive capital in-

creases without any growth of productivity or multiplication of employment, to the detriment of the reproductive capital necessary for fostering development.

These trends inherent in the internal logic of capitalism in the centres appear prematurely in the periphery on account of the great inequality in distribution.

In addition to all this, again at the expense of accumulation, there is the exorbitant siphoning-off of income by the centres, especially through the transnationals, as a result of their technical and economic superiority and hegemonic power.

This insufficient, stunted accumulation of reproductive capital, aggravated by the trend towards hypertrophy of the State and the extraordinary growth of the population, is the main reason why the system cannot intensively absorb the lower strata of the social structure and cope with other manifestations of redundancy of labour. This is the system's exclusive tendency.

These lower strata abound in agriculture, and as the demand for agricultural goods scarcely becomes diversified, labour tends to shift towards other activities. However, given the system's inadequate capacity to absorb labour, a serious redundancy arises which explains the relative deterioration of labour income in agriculture.

As long as this insufficient capacity to absorb labour lasts, technical progress in agriculture will not raise those incomes and correct their relative decline. Instead, it tends to harm relative prices when production outstrips demand. This is usually true of agricultural exports in particular, and has the effect of checking their growth to the detriment of development.

## *2. Changes in the power structure and crisis of the system*

As technology penetrates the social structure, changes take place which are reflected in the power structure. The middle strata expand, and as the process of democratization advances their trade-union and political power develops and increasingly forms a counterweight to the economic power of those, especially in the

upper strata, in whose hands most of the means of production are concentrated. It is therefore in these strata that the labour force possessing social power is mainly found. These power relations between upper and middle strata exist both in the market and in the State spheres. In this way ever-increasing pressure develops for sharing out the fruits of the growth of productivity.

This twofold pressure is largely manifested through a rise in the remuneration of the labour force, either to increase its share in the fruits of productivity or to offset the unfavourable effects of certain factors, above all the tax burden which it bears directly or indirectly and through which the State copes with the trend towards its own hypertrophy.

Bureaucratic power and military power have their own dynamics in the State apparatus, supported by the political power of the middle strata in particular, as a result of which State activities develop beyond considerations of economic efficiency, both as concerns the amount and diversification of State services and in terms of the spurious absorption of labour.

In this way, through the growth of employment and social services the State seeks to correct the system's insufficient absorption of labour and its distributive unfairness; and this is a major factor in its hypertrophy.

To express the foregoing in a nutshell: the distribution of the fruits of the system's rising productivity is fundamentally the result of the changing play of power relations, in addition, of course, to individual differences in ability and dynamism.

As the labour force's sharing capacity increases and it acquires the ability to recoup its tax burden and compensate for the effects of other factors, the rise in remuneration tends to overtake the drop in the costs of enterprises resulting from successive rises in productivity. The excess then tends to be transferred to prices, and this is followed by fresh rises in remuneration in the familiar inflationary spiral.

In these circumstances, for it to be possible to absorb supply, increased by higher costs, it is essential that demand, and the incomes underpinning it, should increase in a correlative manner.

If the monetary authority resists the necessary creation of money in order to avoid or check the spiral, the growth of demand will be insufficient to meet the growth of final production, leading to economic recession which will continue until the authority changes its attitude and prices can rise in line with the higher costs. The rise in prices means that the surplus may once again increase through new rises in productivity, but only temporarily since it is once again compressed by the subsequent rise in remuneration. Thus accumulation declines with adverse consequences for development, besides the disturbances which accompany the heightening of the distributive quarrel.

It should be noted, however, that these phenomena occur when, thanks to the process of democratization, the labour force's trade-union and political power becomes ever greater in both the market and the State spheres, and the latter's expenditure steadily expands through its own dynamics.

In these circumstances, the spiral becomes inherent in peripheral development; and the conventional rules of the monetary game are powerless to avert or suppress it.

These rules are highly valid when distributive power (for sharing out and recouping) is non-existent or very incipient. This is the case when the democratization process is very weak or obstructed or manipulated by the dominant groups: democracy in appearance but not in substance.

Such, then, is the crisis of the system when the arbitrary play of power relations becomes very strong, which is what occurs in the advanced stage of peripheral development. The crisis of the system may be postponed for some time, particularly when plentiful resources are available from the exploitation of non-renewable natural wealth.

The political power of the upper strata, apparently on the wane with the advance of democracy, surges up again when the disturbances brought about by the inflationary crisis give rise to economic disorder and social disintegration. At that point the use of force is introduced, which makes it possible to break the trade-union and political power of the disadvantaged strata.

If the holders of military power are not necessarily under the sway of the economic and political power of the upper strata, one is tempted to ask why they intervene to serve the privileged-consumer society. Here undoubtedly a complex set of factors comes into play. The fundamental explanation, however, is that since the upper strata hold the dynamic key of the system, i.e., the capacity for capital accumulation, they must be left to get on with it from a desire to restore smooth development; but the social cost is tremendous, not to mention the political cost.

What in fact happens is that democratic liberalism breaks down, while the ideas of economic liberalism flourish: a fake liberalism which, far from leading to the dissemination of the benefits of development, flagrantly consolidates social inequity.

Democratic liberalism has not yet managed to become firmly rooted in the Latin American periphery. We are all too familiar with its vicissitudes, its promising advances and painful setbacks. But the past cannot account for everything: new, complex elements spring up as changes occur in the social structure. And the significance of the use of force is not what it was in the past: the creation of that total split between democratic liberalism and economic liberalism, despite the fact that both sprang from the same philosophical source.

### 3. *The great paradox of the surplus*

The foregoing considerations lead to very important conclusions, perhaps the most important in our interpretation of peripheral capitalism.

The surplus is subject to two contrary movements. On the one hand, it grows through successive increases in productivity. On the other, it shrinks through the pressure for sharing which stems from the market and from the State. The system functions smoothly as long as the surplus grows continuously as a result of those two movements.

Consequently, the upper strata, in whose hands most of the means of production are concentrated, can increase capital accumulation

and at the same time their privileged consumption: they possess the dynamic key of the system.

This essential condition is satisfied so long as the sharing out of the surplus, both in the market and the State spheres through the play of power relations, occurs at the expense of successive rises in productivity. The surplus will continue to expand, although at a dwindling rate. However, the sharing out cannot go beyond the threshold at which the surplus would begin to shrink.

At that limit, however, the surplus will have become proportionately greatest in relation to the total product. Why is it impossible to continue improving the sharing, when there would be plenty of room for doing so by reducing the surplus? This is the weak point of the system of distribution and accumulation, because if the pressure for sharing outstrips the increase in productivity, the rise in the cost of goods will cause enterprises to raise prices.

The total surplus would undoubtedly allow much more sharing out at the expense of size, but there is nothing in the system to make this happen. It is conceivable that enterprises might take part of the surplus and transfer it to the labour force without raising costs; this would be direct participation in the surplus. But the system does not work like that. Any rise in remuneration over the increment in productivity raises costs, with the consequences described above.

Not all the pressure for sharing, however, takes the form of higher remuneration. As was pointed out earlier, in order to share out the surplus the State resorts to taxes falling on the labour force, which the latter seeks to recoup through higher remuneration; but the State also has the possibility of directly taxing the surplus or the incomes of the social groups in the upper strata who have no capacity for recouping such taxes. These taxes are not transferred to costs, but if their amount squeezes the surplus the rate of accumulation and of growth is weakened, thus accentuating the exclusive and conflictive tendencies.

Whatever the angle from which it is approached, there is no solution to the problem within the system, so long as the capacity for redistribution is strengthened in the advanced

stage of the democratization process. Either the result is the inflationary spiral, if sharing leads to higher production costs—which, in addition to the upheaval caused by the spiral, undermines the dynamics of the surplus—or else some of the surplus is taken directly, again with adverse consequences for its dynamics, which sooner or later must be resolved using inflationary means.

However much thought one devotes to the question, it appears that the rules of the game of peripheral capitalism do not allow for an attack on its two major flaws: its exclusive tendency, which may only be remedied by a more intense accumulation of capital at the expense of the privileged strata and of the income transferred to the centres; and its conflictive tendency, unrelentingly heightened in the unrestricted play of power relations.

There is a great paradox in all this. When the surplus grows so far as to reach its ceiling and the pressure for sharing continues, the system reacts by seeking to achieve continued growth of the surplus. In order to attain this objective, it resorts to the use of force. However, the use of force is not a solution; the only solution is to change the system.

#### *4. Crisis of the system and the use of force*

Given the nature of the system, at the advanced stage of peripheral development and of the democratization process it is impossible to avert the tendency towards crisis. In the system's internal logic there is no lasting way of ensuring that the pressure for sharing does not jeopardize the dynamic role of the surplus and lead inevitably to the inflationary spiral.

The attempt to restore the dynamics of the system through the use of force entails the risk of serious disruption, usually involving a combination of theoretical inconsistency and practical incongruity.

If the system is handled skillfully, however, particularly in favourable external conditions, high rates of accumulation and of development may be achieved with striking prosperity for the privileged social strata, but at the cost of severe compression of the income of a considerable part of the labour force.

This solution, however, by no means strikes at the roots of the system's exclusive and conflictive nature. When the democratization process is resumed sooner or later, the pressure for sharing will tend to lead the system into a

new political cycle, aggravated by the deformation which has taken place in the production structure to satisfy the exaltation of the privileged-consumer society.

### III

## Towards a theory of change

#### 1. *The two options for a change*

The system of accumulation and distribution of the benefits of technical progress is not subject to any regulating principle from the standpoint of the collective interest. If appropriation is arbitrary when market laws prevail, so is redistribution when political and trade-union power becomes a counterweight to those laws.

It is therefore essential for the State to regulate the social use of the surplus, in order to step up the rate of accumulation and progressively correct distributive disparities of a structural nature, which are quite distinct from functional disparities.

At bottom, there are only two ways in which the State can undertake this regulatory activity: by taking into its own hands the ownership and management of the means of production which give rise to the surplus; or by using the surplus in a spirit of collective rationality without concentrating ownership in its own hands.

The political and economic significance of these two options is essentially different. I lean towards the second on account of two fundamental considerations. In the first place, because the major flaws of the system do not lie in private property itself but rather in the private appropriation of the surplus and the harmful consequences of the concentration of the means of production. Secondly, because the first option is incompatible with the paramount concept of democracy and the human rights inherent in it, while in the second that concept becomes fully compatible, both in theory and in practice, with vigorous development and distributive equity.

#### 2. *The dissemination of capital and self-management*

The transformation of the system necessarily calls for raising the rate of accumulation of reproductive capital, particularly at the expense of the consumption of the upper strata. The social use of the surplus enables this to be done by disseminating ownership of capital among the labour force thanks to the surplus of the large enterprises in whose hands most of the means of production are concentrated.

In the remaining enterprises, greater accumulation would be undertaken by the owners themselves, but as they rose in the capital scale an increasingly proportion would have to go to the labour force in order to avoid concentration.

The change in the social composition of capital thus occurring in the large enterprises would have to be accompanied by gradual participation in capital until reaching self-management. Some principles of this type of management could also be followed in State enterprises, in special conditions which justified doing so.

These guidelines refer to countries which have attained advanced stages in their development; at less advanced stages, the social use of the surplus could take different forms. In any event, in either case it would be necessary to establish suitable incentives so that the transformations could take place without major upheavals.

This latter concern could lead to intermediate solutions, one of which might be to encourage greater accumulation, even in the large enterprises, in the same hands as at

present, together with measures for the redistribution of some of the surplus.

### 3. *The market and planning*

In the new system all enterprises, whatever their nature, could develop freely in the market, in conformity with some basic, impersonal conditions established by the regulatory action of the State concerning both the social use of the surplus and other responsibilities pertaining to the State.

This regulatory activity has to fulfil objectives which the market itself cannot attain, but which would enable it to achieve great economic, social and ecological efficiency.

The criteria guiding the State's regulatory activity should be established through democratic planning. Planning means collective rationality, and that rationality requires that the surplus should be devoted to accumulation and redistribution, as well as to State expenditure and investment. Accumulation and redistribution are closely linked, since productivity and income should gradually rise as the labour force in the lower strata, as well as the labour employed spuriously by the system, are absorbed more and more productively. This is a dynamic redistribution, accompanied by other direct forms of social advancement responding to pressing needs.

Planning involves technical work of the utmost importance, which cannot be undertaken without a high degree of functional independence; it is, however, a technical and not a technocratic task, as it must be subordinated to democratically-adopted political decisions.

All this requires constitutional changes in the State machinery and new rules of the game ensuring both stability in the social use of the surplus and flexibility in responding to major changes in prevailing circumstances.

### 4. *Synthesis of socialism and liberalism and power structure*

The option for change outlined here represents a synthesis of socialism and liberalism. Socialism in that the State democratically regulates

accumulation and distribution; liberalism in that it enshrines the essence of economic freedom, closely linked to political freedom in its original philosophical version.

This option calls for very important changes in the structure of political power, as does the option of concentrating ownership and regulatory activity in the hands of the State. In the course of the alterations of the social structure, the power of the upper strata is counterbalanced by the redistributive power of the middle and, possibly, lower strata. The latter, however, eventually shatters itself against the former in the dynamics of the system. Nevertheless, the crisis of the system opens the way for changing it, as it opens the possibility of reducing the power of the upper strata.

These changes in the power structure would perforce be confined to the periphery, as the power relations between the periphery and the centres, under the hegemony of the latter, especially the leading dynamic centre of capitalism, could not be radically changed by the action of the periphery alone. The power of the centres is considerable, and furthermore it lacks a sense of foresight, as is evidenced by its serious disruptions of the biosphere. This crisis may perhaps have the virtue—as has often been true of major crises in the past—of making the centres aware of the need for great foresight in their relations with the periphery and for containing their own power. I am inclined to think that if the main dynamic centre of capitalism had had this awareness, the breakdown of the international monetary system might have been avoided.

The myth of the worldwide expansion of capitalism has been exploded, as has that of the development of the periphery in the image and likeness of the centres. The myth of the regulatory virtue of market laws is also being dispelled.

Major changes are needed; but it is necessary to know why, how and for whom the changes are made. A theory of change is also needed; these pages, called forth by the pressing need for debate and enlightenment, seek to contribute to the formulation of such a theory.

# On peripheral capitalism and its transformation\*

*Comments by Octavio Rodríguez*

## Introduction

I have already twice commented on some aspects of Raúl Prebisch's latest work: I shall now attempt a more comprehensive critique. This is certainly no easy task, even though I shall deal only with the interpretative aspects of his arguments in the articles published in the *CEPAL Review*, Nos. 1 and 6, and not with his 'theory of change', which, while most thought-provoking, may be considered incomplete in more senses than one, as the ideas in it are still being worked out.

In order to undertake a comprehensive critique, it is necessary to have a more or less exact idea of how Prebisch's various arguments concerning the functioning of peripheral economies are articulated. The first objective of my comments will therefore be to indicate how those arguments are organized.

It seems that there are six moments, or six analyses, in the new interpretation, all of which

are, of course, closely interrelated. We shall use the following concepts to differentiate them below: employment, surplus, distribution, consumer society, economic and political crisis of the system, and international relations.

My second objective will be to point out some technical problems in the arguments in each of these spheres. Once again these are partial criticisms —what Borges would call '*tecniquerías*'— generally relating to a lack of precision or of consistency which may be overcome with a varying degree of difficulty; this would, in my opinion, make the argument as a whole clearer and more solid.

My third objective is to put forward a more comprehensive critique. The aim will be to point out some discrepancies in Dr. Prebisch's way of tackling the problems of underdevelopment, which in his latest articles are approached from the standpoint of distribution.

## I

### The basic arguments

We shall attempt very summarily to describe here the central core of the argument in the various spheres of analysis listed above. For reasons of space, I shall refer to only the first five of these.

\*The comments on Dr. Prebisch's articles set forth in this and the two preceding issues of the *Review* are among those presented at a special seminar organized by the Centro de Capacitación para el Desarrollo (CECADE) of the Mexican Programming and Budget Secretariat.

#### (a) *Employment*

For examining the problems of employment there is an implicit benchmark which might be succinctly designated by the term 'sufficient dynamism'. This can be linked with the sectoral and global rates of accumulation required to ensure that, as technical progress penetrates production, the labour force is displaced and reemployed in successive 'technical layers' of ever-higher productivity, in each of which higher skill levels are

needed and higher wages paid. This conceptual basis is more complex than that of traditional CEPAL studies, as it does away with the assumed homogeneity of the labour force and the exaggeratedly simplistic dichotomy between the modern sectors with normal productivity and the archaic, backward, low-productivity sectors.

The tendency towards unemployment is explained by reference to this implicit benchmark: in the periphery the conditions of 'sufficient dynamism' are not satisfied, and instead there is 'insufficient dynamism'. At bottom, this last term refers to the weakness of the growth rate of the demand for labour, compared with the rate at which the supply is growing.

What *basic* factors are brought to bear in the explanation of the tendency towards structural unemployment? On the demand side: the slow accumulation of capital, linked with the high propensity to consume of the strata with saving capacity, and the inappropriate capital-intensive technology generated in the centres. On the supply side: the rapid growth of the population and of the active population, and the existence of what are called 'heterogeneous' sectors, in which the productivity of labour is very low.

*Additional* factors which are linked with the problems of employment are: the consumption patterns associated with the concentration of income, leading to the production of goods involving the use of highly capital-intensive technology; the forms taken by investment, such as its distribution between directly productive assets and construction; and inadequacy and inefficiency in the training of the labour force.

#### (b) *The surplus*

A corollary of the analysis of employment lies at the heart of the concept of the surplus and of the reasoning connected with that concept. As there is labour employed in conditions of very low productivity, or else underemployed or unemployed, the wages for the lowest skills tend to remain at very low levels. This in turn tends to depress wages for the entire range of skills. Consequently, as labour rises to more productive technical layers, the

corresponding wages do not rise in proportion to the growth of productivity, but at a lower rate.

A second corollary, derived from the preceding one, is that only a small proportion of the larger real incomes made possible and generated by the rises in productivity accrue to the wage-earners, and the remainder is therefore concentrated in the hands of the owners of the means of production in the form of the surplus.

Prebisch's latest articles stress the structural nature of the surplus. I think that the key to this assertion lies in the reasoning summarized above: the surplus is *structural* because it is generated as technical progress gives rise to new technical layers, penetrating and transforming the production *structure*.

This concept of the surplus, which refers fundamentally to the long term, must be distinguished from the analysis of the economic mechanism which makes it possible to increase the surplus, or more precisely, to transform the growth of productivity into property income. The latter analysis belongs to the monetary and credit field, and will not be discussed here.

#### (c) *Distribution*

The articles under consideration stress the key nature of the concept of the surplus: it is central to the set of analyses of the phenomenon of underdevelopment. One of the reasons for affirming that this is so is that it constitutes a bridge between the analyses of employment and of distribution.

The articles argue that there is no law regulating income distribution of the sort described in classical or neoclassical economics. However, it is tacitly recognized that there is a tendency towards concentration at the level of the functioning of the economic system, a tendency which may be corrected or modified at other levels of the social structure (for example, through the use of trade-union or political power).

It is argued that this tendency has two sides to it: functional concentration whereby the surplus grows faster than the wage bill, because the growth of wages is restricted by the existence of unemployment, urban underem-

ployment and sectors with very low productivity, particularly in agriculture; and personal concentration: the reasoning here is apparently that as property income grows more than labour income, there will be a tendency towards the gradual concentration of income in the top income deciles.

(d) *The consumer society*

When seeking to make clear the relationship between the various analyses which form Prebisch's new interpretation, it is worthwhile considering separately two groups of ideas concerning the 'consumer society' (an abbreviation of his original 'privileged consumer society').

The first set of ideas concerns employment problems. It is stated that consumption imitates that of the great industrial centres, and tends to become steadily broader and more differentiated through the incorporation of new goods. This has two implications for employment, which are linked with factors mentioned earlier as acting on the demand for labour: accumulation tends to take place well below possible levels, and there is a tendency to use capital-intensive, labour-saving technology.

The second set of ideas is connected with the analysis of the crisis of the system, and may be summarized as follows: in the centres, at any given moment, average income has already reached a very high level, but the rises in productivity resulting from technical progress allow it to rise still further. This gradual growth of income, extending to large sectors of the population, means that the demand for some goods becomes saturated, but at the same time demand is generated for other new goods. On the supply side, innovation makes it possible to launch on the market goods of higher quality than those previously sold: the demand for these higher-quality goods is very elastic, and they are purchased with the steadily rising income.

In the periphery, the growth of the economic system is similar to that outlined above, but it does not extend to all members or even to the majority, being confined to a small segment of society. It would seem that income must be concentrated for some sectors of the population

to obtain high income levels. Those sectors are thus able to generate demand for the new goods created in the centres. In addition, that demand makes it possible for the surplus to be used partially for accumulation for the production of those conspicuous consumption goods, which in turn are acquired by the privileged strata with the part of the surplus devoted to that purpose.

In short, in the peripheral countries the expansion of capitalism takes place within the sphere of what Prebisch calls the 'privileged-consumer society'. At the same time there is a tendency for vast sectors of the population to be excluded from that sphere, at least in the sense that they do not consume those goods and largely have an inadequate level of consumption.

(e) *Economic and political crisis of the system*

Hence, the dynamics of capitalism is viewed as basically set in the sphere of the consumer society. The ideas relating to the economic crisis of the system may be summarized as follows. Apparently, if the dynamics of the system—the continuity of relatively balanced growth—are not to be jeopardized, certain proportions must be maintained between the growth rates of productivity of labour, the surplus, capital accumulation, consumption paid from the surplus and real wages.

The articles point out some of the possible incompatibilities. Of these, particular mention should be made of the incompatibility which might arise between the rates of growth of productivity, the surplus and wages. If wages grow more than productivity, the surplus tends to grow less. This may be aggravated by the impact of higher public expenditure on the size of the surplus or its growth rate. It is considered that in the final analysis it is this decline which undermines the dynamics of the system.

The remainder of the argument is political in nature, and is closely linked with a political analysis.

There are social groups fighting over the surplus, a struggle in which the State itself takes part. When the impact of the struggle on the surplus becomes significant, to the point of jeopardizing the functioning and growth of the system, the upper strata (particularly the

owners and entrepreneurs) seek to restore it by raising prices. The subsequent demands of the middle and lower strata increase the inflationary pressure, and inflation is then exacerbated by the continuing distributive struggle, until a point is reached at which the normal

functioning of the system is jeopardized. The upper strata then resort to the use of force, thus restoring the functioning of the system and thereby the generation and appropriation of the surplus.

## II

### Critique of the basic arguments

#### (a) *Employment*

The new concepts of 'sufficient dynamism' and 'insufficient dynamism', which represent a complication of concepts used in older documents, are presented rather loosely. The imprecision lies in the fact that the links between the generation of new technical layers of higher productivity and the variations in labour training which are *pari passu* required and produced, are only mentioned in a general, descriptive manner.

This lack of precision really stems from the fact that, in order to deal with employment problems, besides relating them to the problems of accumulation and technology it is also necessary to analyse the transformation of the production structure in some detail.

This is precisely the heart of the criticism made here: the articles under consideration do not adequately deal with changes in the production structure. For the sake of greater clarity, it is worth referring separately to the following aspects of this question: structural heterogeneity, the roles of agriculture and consumption patterns and the pattern of industrialization associated with them.

##### (i) Structural heterogeneity.

In sum, it may be said that in Prebisch's articles the basic explanatory factors of the trend towards unemployment are combined as follows: full employment of the labour force in the periphery calls for a high rate of accumulation which is very difficult to achieve; this difficulty is due firstly to the high propensity to consume of the upper- and middle-income

strata which have the capacity to save; secondly, to the high growth rate of the overall population and/or of the active population; and finally, to the capital-intensive nature of the technology generated in the centres and the growth of productivity of labour accompanying technical progress, as higher capital intensity and labour productivity are accompanied, *ceteris paribus*, by a rise in the rate of accumulation required to achieve full employment.

Our purpose here is not to reformulate the analysis just summarized, but rather to point out what elements have not been taken into account or have not been considered satisfactorily.

The most important of these is structural heterogeneity. In this connexion, the articles under consideration refer to the existence of a residual technical layer of very low productivity, constituting a real or potential surplus active population which continuously presses down on wage levels. But this heterogeneity is not integrated into the explanatory analysis of the tendency towards unemployment, nor does it play in it the crucial role which it appears to have in fact.

The above-mentioned analysis also fails to examine satisfactorily the impact of the inappropriateness of capital intensity. It assumes that labour productivity and capital intensity increase, thereby reducing the need for labour per unit of product and of investment. This overlooks what might happen if technical progress should also lead to a rise in the productivity of capital. An alternative line of reasoning, adopting this additional assumption, could lead to the following conclusions: the rise in

capital intensity has a favourable effect on the growth rate of the demand for labour, on condition that the investment does not compete with investment already existing in the heterogeneous sector. Only in the case where it does compete with such investment may it happen that the growth rate of the supply of labour due to technological unemployment may be higher than the growth rate of the demand, producing a net negative result, although this is neither necessary nor inevitable, as it depends on the proportion of the competitive investment with respect to the total.

His analysis also fails to consider the problem of inadequate scale. In other words, it overlooks the fact that the productivity of capital declines in the same proportion as it remains idle, which reduces the rate of accumulation for any value of the saving rate.

In brief, it seems that the analysis should bring in the following elements in a suitable manner: the existence and relative importance (dimension) of the heterogeneous sector; the degree of heterogeneity, in other words, the difference in 'technological intensity' between investment in the modern sectors and existing investments in the more backward sectors; capital intensity, the rising or high level of which may favour accumulation and employment, particularly if modern technology is introduced in the form of investment which does not compete with existing investment; and inadequacy of scale, which is unfavourable to accumulation inasmuch as it forces capital to be left idle.

(ii) The role of agriculture.

The articles under consideration appear to pay insufficient attention to agriculture, particularly bearing in mind that in underdeveloped economies it is the heterogeneous sector *par excellence*.

The agricultural sector may be considered partly modern and partly archaic, containing different forms of technology of varying capital intensity, which in principle should make it possible for the sector to catch up within a given timespan. The procedure postulated is that the modern — industrial, agricultural and other — sectors should grow to such an extent

that they absorb the natural growth of the population of the system as a whole, and also gradually the manpower previously employed in agricultural sectors with very low productivity (and/or in the service sectors already existing in the cities).

The difficulty with this analysis is that while the examination of the rates and proportions of accumulation required in the various sectors may represent a step forward, the issue itself is closely linked with prevailing ownership relations in agriculture, which may vary enormously from one case to another. It may be necessary to discover, for example, to what extent employment problems are caused by the destruction of the peasant economy, and to what extent the subsistence or resurgence of the peasant economy attenuates or perpetuates them, but without solving them.

(iii) Consumption patterns.

The argument here is as follows: income tends to be concentrated in the social strata with a high propensity to consume; in itself this high propensity undermines the accumulation effort, with a negative effect on employment; in addition, however, there is a tendency to imitate the consumption patterns of the centres, which increasingly include higher goods whose production involves the use of very capital-intensive technology.

As far as the high propensity to consume is concerned, this is not a clear-cut phenomenon in the case of some of the larger economies of the region (to which the analysis of the crisis of the system refers, at least in part), where rates of investment reach very high levels. Contrary to what is argued, it would seem that in those cases the diversification of consumption constitutes a condition of continued accumulation and growth.

Nor is it clear that the diversification of consumption, and the parallel diversification of the production system, which together form what is called the 'consumer society', have a negative effect on employment to a degree that may be considered significant. It is not evident that luxury goods require capital-intensive technology compared with other kinds of goods. Furthermore, while it is possible to

think of altering and rationalizing the production structure —by avoiding duplication and waste of capital, for example— there seems to be little likelihood of altering the structure of demand in such a way as to exclude new goods; and what is still more important, it seems improbable that the rationalization achieved will have a significant impact on the solution of employment problems, in comparison with the effect upon them of structural heterogeneity.

(b) *The surplus*

In the articles under consideration, it is possible to distinguish between three concepts of the surplus:

—The increment in the quantity of money created during a production period in order to finance production in the following period (on the hypothesis that production increases in each successive period); this increment makes it possible to raise the prices of goods and thus transform the fruits of the higher productivity of labour into property income.

—That part of the increments in the social product achieved by the growth of labour productivity which is appropriated by the owners of the means of production.

—That part of the social product which accrues to the owners of the means of production, or more precisely, the *ex post* amount of property income.

The first of these definitions is used in the first article published in the *CEPAL Review*, but it has been dropped in the subsequent articles, which refer to the structural nature of the surplus. In my opinion, of the two remaining definitions only the latter is correct, and it alone is coherent and compatible with Prebisch's line of reasoning as a whole.

(c) *Distribution*

It is argued that the distribution of income is not governed by any economic law, but depends on the power relations among the different social strata, including those in the political sphere. As suggested earlier, it would seem that the analysis would be more coherent if it distinguished between two levels. The first of

these is economic; here the articles postulate the existence, if not of a law leading to wholly definite results, at least of a general trend towards income concentration, deriving in the final analysis from the downward pressure on wages exercised by surplus labour. This does not represent an obstacle to the identification, at a second analytical level dealing with social and political relations, of the way in which the exercise of power in its different forms affects that basic tendency, heightening or lessening it or even checking it at specific periods.

(d) *The consumer society*

Everything would seem to indicate that the concept of 'consumption capital', which is partly related to that of the consumer society, is very difficult to define precisely, from both the theoretical and practical standpoints. To include it blurs the analysis without compensating by adding anything which may be considered of fundamental importance for the argument as a whole.

(e) *Economic and political crisis of the system*

The reasoning here is not convincing in a number of respects, chief among which are the following: the conceptual framework itself; the theoretical reasons why the system cannot continue functioning; the applicability of the analysis to the periphery, or its compatibility with the assumptions concerning the periphery; and the analysis of the crisis in the political sphere.

(i) The abstract (economy) analysis of the crisis.

The articles under consideration establish a kind of boundary or reference point on the basis of the growth of the productivity of labour. It is argued that if wages rise more than productivity, there is a tendency towards crisis because the surplus grows less. The capitalists will seek to restore the surplus, apparently in connexion with the drop in the profit rate, since obviously, if wages rise more than productivity and the surplus diminishes, this rate will decline too.

The first weakness of this crucial aspect of the argument is that it neither examines nor

sheds light upon what happens to the profit rate. The second weakness is that the argument is not itself as self-evident as might appear.

Even without undertaking any exhaustive analysis, mention may be made of a number of other possible relationships between wages, the surplus and profits, leading to different conclusions from those discussed above. Wages may rise faster than the productivity of labour and the surplus more slowly, but with a growing surplus the profit rate may decline to a level which, though low, is nevertheless compatible with continued accumulation and expansion of the system. If it is further assumed that the productivity of capital also increases, it is logically possible that the profit rate may not decline.

There is a second aspect of the argument which does not appear to link the crisis of the system to the drop in the profit rate but rather to problems of the actual realization of production. It is argued that if wages grow more than the consumption of the capitalist class, this will jeopardize not only the growth rate of that privileged consumption, but also the rate of capital accumulation, which again checks the dynamism of the system.

Such arguments are vulnerable, particularly taking into account that the existence is admitted of technical progress and of rising productivity of labour. In that case, it is not clear why a certain rate of accumulation may not be combined with a certain growth rate of consumption paid from wages, in such a way that the system does not go into crisis, in the twin sense that accumulation continues and that output is sold, period after period.

(ii) Is the analysis of the crisis applicable to the periphery?

Even admitting that in a central economy, or in a capitalist economy in the abstract, the limit established by Prebisch is meaningful, can it also be said to apply to an economy with surplus manpower?

Putting this another way, on the one hand it is admitted that there is a trend towards a personal and functional concentration of income, linked in the final analysis to the overabundance of active population; on the other, it

is recognized that the margins for increasing labour productivity are very broad. On the basis of these assumptions, is it logical to accept that in this type of economy wages will steadily grow more than productivity? Would it not be more reasonable to suppose that average wages would grow, but at a low rate?

Thus, it is not clear to what extent the argument concerning the crisis is in keeping with the specific conditions of the periphery and is applicable to that type of economy. There is also a failure to examine the connexion which may exist between centre and periphery in the sphere of wage levels and trends. For example, there is no investigation of how far differences in wages—besides technical progress—underpin profits in the world capitalist economy and avert the crisis of the system as a whole, despite the vast wage rises occurring in the centres.

From an empirical standpoint, it is not clear in what cases the crisis of the system may have occurred in peripheral countries as a result of a too rapid growth rate of wages. The reader cannot help but wonder if the argument in fact only reflects the limited experience of the economies of the Southern Cone of Latin America.

(iii) The analysis of the political crisis.

The above concept of economic crisis is complemented by that of the political crisis of the system. It is argued that the distributive struggle so far distorts the functioning of the economy that the property-owning classes, in seeking to restore it (and allow the generation and appropriation of the surplus), call into question the democratic forms of government, which they replace with authoritarian forms.

At this stage, suffice it to repeat briefly a criticism made by Alberto Couriel in his comments. The categories used—economic power, trade-union power, political power—do not seem adequate for tackling the broad sphere of social dynamics as Prebisch seeks to do. In particular, the analysis does not include the State in a satisfactory manner, or take into account the fact that the play of political forces largely takes place through the organizations and institutions it comprises.

### III

## Outline of a comprehensive critique

I wish to stress at the outset that I do not claim to present here a fully-fledged critique which properly articulates all the foregoing considerations, and also deals with the most important aspects of the argument under consideration. This is rather a preliminary critique.

With regard to the fundamental points of Prebisch's argument taken as a whole, it would seem that there are three closely interrelated aspects which distinguish it from the usual approach of the 'structuralist school', while at the same time placing it in clear opposition to the ultra-liberal currents currently fashionable in Latin America.

The first of these key aspects is that of the crisis of the system. The idea that the evolution of the underdeveloped societies will not bring an end to the 'peripheral conditions' but rather lead to the breakdown in the long term of the functioning of the economy and the loss of democratic institutions and values, possesses what Fernando Fajnzylber has referred to as 'ralling power',<sup>1</sup> and it forcibly sums up the stalemate in which much of the Third World seems to be stuck. The analysis of the crisis of the system—closely linked with that of the distributive struggle—is based on the analysis of income distribution, where the key idea stressed is the general tendency towards concentration. As the other side of the coin, it is admitted that the privileged-consumer society is a specific characteristic of the relatively less developed societies developing under capitalist relations.

One criticism which should be borne in mind has already been suggested. From an empirical standpoint, none of these three key aspects of the argument appears to be generalizable to the underdeveloped world. The political crisis and its basis, the distributive struggle, for instance, appear to summarize the ex-

perience of some semi-industrialized countries, which constitute special cases in comparison with the periphery as a whole; there are examples of underdeveloped and capitalist economies where no tendency towards concentration has existed, and in some cases studies reveal that the consumption of durable goods and other 'new' goods has been spreading to quite broad sectors of the population.

In our opinion, however, what is of interest here is to criticize Dr. Prebisch's argument from a conceptual standpoint. Fernando Fajnzylber has already pointed out that Prebisch's approach highlights the sphere of distribution, at the expense of the analysis of the production sphere. The latter may be said to have two major components: those characteristic of the forces of production and their degree of development, and those characteristic of the relations of production (or of the structure and relations of ownership in which they are expressed).

A crucial aspect of the forces of production (or alternatively, of the way in which the peripheral economies have developed) is that of the production structure proper, in other words, the sectoral make-up of the production system and the levels of productivity achieved in the various sectors and branches. It would seem that by starting from and highlighting the sphere of distribution, the analysis of the production side is inadequate and, furthermore, overlooks progress already made in traditional CEPAL thinking.

Implicitly, the production structure is considered as a reflection of the consumption structure, which reflects the structure of demand, in turn conditioned by the distribution of income and the trend towards its concentration. Thus, the analysis is undertaken on the basis of a reflex ideal production structure which does not take into account highly important characteristics of the real production system. In this connexion, two major omissions

<sup>1</sup>See his comments in *CEPAL Review* No. 11, August 1980.

may be pointed out: the fundamental fact of heterogeneity is not suitably integrated in the argument (although it is mentioned and recognized); and there is a failure to take into account the characteristics of the industrial structure which the transnational enterprises have been shaping, as well as the implications of 'uneven' industrialization for the functioning of the economic system as a whole.

With regard to the second aspect of the production sphere, which we feel has been insufficiently considered, i.e., production relations, the main points to be examined are those outlined below.

The articles seek to undertake a 'more than economic' analysis of social reality; but in them the social groups are not defined on the basis of production relations (or the relations of ownership in which they are reflected), but rather on the basis of income strata. This limits the possibilities and realism of the political analysis, as the latter only recognizes the action of certain ill-defined 'groups' and neglects the class structure of peripheral societies and ultimately the ways in which the classes act and are interrelated.

In order to carry out a 'more than economic' analysis, it is probably first necessary to have a suitable analysis of the 'economic base'

of the economic sphere, to use the language of conventional economics.

This in turn means that it is necessary to take into account and include those social relations which exist at the economic level, defined as such, while excluding non-economic social relations.

The analysis of non-economic social relations in general, and of political relations in particular, belongs to the realm of the superstructure. For that very reason, it cannot attain the degree of generality which may be achieved by the analysis of the economic base. Its level of generality is similar to that of short-term analyses in economics: it must take into account the specific features of the country or case under consideration.

The foregoing comment strengthens the suspicion raised by Lucio Geller<sup>2</sup> that perhaps crises cannot be explained as linearly, starting from economic factors, as Prebisch's article would suggest. They are closely linked with the impact of political factors whose specific features must be taken into account in every concrete case.

<sup>2</sup>See his comments in *CEPAL Review* No. 12, December 1980.



## *Comments by Alberto Couriel*

1. In his analysis, Raúl Prebisch lays great emphasis on the insufficient dynamism of accumulation to absorb, in technical layers of rising productivity, the unemployed population and the manpower in the technical layers at lower levels of productivity.

In view of the complexity of the factors affecting labour supply and demand, the consideration in isolation of the level of accumulation does not appear sufficient to explain the limitations in the absorption of manpower which are highly characteristic of the countries of the region, with the exception of Argentina.

The large numbers of the population employed in backward, low-productivity sectors, particularly in rural areas, together with the high growth rate of the population, clearly indicate where the region's problems lie and show the inadequacy of any analysis based solely on the level of accumulation.

There can be no doubt that a high level of accumulation generating a strong economic growth rate may be considered a necessary condition for tackling employment problems; that it is not a sufficient condition, however, is shown by the experience of recent decades in the region, where the cases of Brazil and Mexico are quite significant.

There are countries in the region with high economic growth rates, and particularly with a high investment coefficient, amounting in some periods to over 25% of the gross domestic product, but which nevertheless were unable to solve their employment problems; this demonstrates the importance of other factors, especially the characteristics of the production structure.

A special example of these problems is to be seen in the recent development of the Panamanian economy. As is well known, Panama is a country with consumption patterns which imitate those of the developed countries, but with very high levels of accumulation, with investment coefficients even exceeding 25% of the product during certain periods.

Given the low level of development of domestic productive forces, such high invest-

ment coefficients were achieved through intensive external financing. However, this high level of accumulation was not enough to solve the employment problem. Between 1960 and 1975 there was a drop in the traditional rural sector's share of total employment, above all because of heavy migration from rural to urban areas, particularly Panama City. This is the result of a number of factors encouraging population loss from rural areas, but especially the attractions of the urban areas. This migratory flow was absorbed into the modern strata of the economy, particularly services and construction. Thus, the percentage of the population employed in the informal urban and traditional strata dropped from 76% in 1960 to 56% in 1975.

It should be stressed here that if the growth rate and style of development prevailing in Panama during the 1960s were to continue, and assuming that the share of the informal urban sector in total employment remained constant, it would take 100 years for the modern sector to absorb the flow of migration and reduce the share of the traditional rural sector to insignificant levels.

This example shows that the growth rate is not alone a sufficient factor to solve employment problems, despite the striking improvements in the recent past.

In other countries, such as Peru, the strong growth process stemming from industrialization in the 1960s made it possible only to maintain the modern sector's low share in total urban employment, in the face of the vigorous migratory flows and consequent decline of the rural traditional sector in total employment.

The purpose of these examples is only to show the inadequacy of an analysis of employment based on the level of accumulation, and not to suggest that the problems raised are not important, particularly when in many countries of the region the conditions of the appropriation and use of the economic surplus have considerably limited accumulation levels, leading to very low investment coefficients which have appreciably hindered the possibil-

ities of manpower absorption at a given level of productivity.

2. One of the central themes of Prebisch's analysis in fact refers to the links between the level of accumulation, the structure of consumption and the possibilities of manpower absorption

It is argued that with the growth of productivity, the surplus appropriated by the capitalists grow more than wages. As for use of these surpluses, a part leaves the country to join the circuit of world accumulation, another part is devoted to the consumption of the capitalists, imitating the consumption patterns of the centres, and it is only the remainder that is allocated to accumulation. Emphasis is laid on the imitative consumption of capitalists which restricts accumulation levels and thus hinders the possibilities of absorbing labour from technical layers of lower productivity into technical layers of higher productivity.

Two important points flow from this outline:

(a) Would employment problems be solved if the capitalists were austere and reduced their consumption? The foregoing analysis, based on the level of accumulation, reveals the inadequate, partial nature of the approach;

(b) The other point is to define the imitative consumption of the capitalists which is considered in some way as conspicuous, luxury or non-essential.

The determination of what non-essential consumption consists in probably stems from a political definition, but basically it depends on the development of the productive forces in the country under consideration and on the size and proportion of the population consuming what we might describe as new goods.

Let us consider two extreme examples of countries in the Latin American region: Argentina and Honduras.

In the first case, where there is a low level of heterogeneity, a small proportion of rural population and limited numbers employed in strata of low productivity, the percentage of the population consuming these new manufactured goods is high. Consequently, they may be considered mass consumer goods, as in the developed countries.

The problem in Argentina, then, is not one of imitative consumption patterns restricting the levels of accumulation, which are already traditionally high.

The case of Honduras, on the other hand, better fits Prebisch's argument. It is a country whose productive forces are little developed, with a high degree of heterogeneity, a high proportion of rural population, and very large numbers employed in the informal urban strata and especially the traditional rural strata; it has a low investment coefficient and a high proportion of surpluses remitted abroad.

In this second case, the definition of essential and non-essential consumer goods will be completely different from that in the Argentinian case, irrespective of the aspirations and expectations of the population as a whole for consuming those goods. In the case of Honduras, a necessary condition for tackling the problems of employment is the raising of the level of accumulation, which signifies altering the present conditions of appropriation and use of the surplus.

To correct the conditions of appropriation, particularly with a view to preventing the surpluses being used outside the domestic economic circuits, and to change the conditions of use of the surplus so that it is not devoted to non-essential consumption, particularly by the population in the top income decile, means deciding on the basket of final goods to be produced and consumed domestically, so as to be able to raise the investment coefficient and thus the rate of capital accumulation.

To define this basket of goods also means orienting the supply of goods, programming from the production sphere upwards, and this also implies banning imports of non-essential consumer goods. Programming the supply of goods is essential in order to ensure the level of accumulation, given the aspirations and expectations of the mass of the population as regards consuming these new goods.

Naturally, in order to achieve the necessary and sufficient conditions for solving employment problems it is necessary to look to the production structure and other factors of labour supply and demand analysed above.

There can be no doubt that, for example, in

the case of Cuba, with changes in the mode of production stemming from the substantive change in the power structure, and given the special circumstances of its international economic relations, the treatment of the problems of employment and the satisfaction of basic needs necessarily took place through changes in the consumption structure in order to raise accumulation levels.

In the case of Mexico, in recent decades, imitative consumption has not held down the high levels of accumulation nor the strong growth rate of the product. Indeed, it should be stressed that the production of these new goods has been a major factor for achieving the high levels of growth recorded in the recent past.

Mexico has drawn up a development plan which emphasizes manufacturing industry and the exploitation of petroleum. Thus, without changing consumption patterns it should be possible to achieve very high growth rates, particularly in petroleum activities and in the secondary and tertiary sectors, achieving high investment coefficients. However, even after 15 years of very strong growth, about 40% of the labour force still remain employed in the informal and traditional urban and rural strata with very low levels of productivity.

Once again it may be seen that considerations concerning the production structure and the other factors of labour supply and demand are relevant to tackling employment problems.

This does not mean neglecting consumption patterns altogether. It may happen that the rapid pace at which new goods are introduced generates processes of resource destruction or leads to competitive investment with net negative effects on manpower absorption. Here again it is a question of programming the production structure and the incorporation of technical progress, especially when a policy aimed at substantially changing consumption patterns is hardly viable, but once more this does not imply that there will necessarily be a major impact on manpower absorption.

3. Dr. Prebisch's articles make significant conceptual contributions to a better interpretation of peripheral capitalism. By way of example, mention may be made of his concern for an analysis of the dominant economic system as a whole; the need for a comprehensive view

covering the economic, political and ideological levels; economic analysis based on the process of capital accumulation, for which the conditions of appropriation and use of the economic surplus are considered vital; the idea that the distribution of income is determined by the characteristics of the balance of power among the various sectors of society; the inflationary process as deriving from the struggle over distribution, and consequently as a problem of power relations.

All these elements, incorporated into the interpretation of the processes underway in the region, have led to significant progress, but without yet attaining a sufficient level of precision and analysis for a full understanding of the phenomena.

This is particularly true of the inadequate analysis of the relationships and determinants between the economic, political and ideological spheres, the inappropriateness of the categories used and the ways of dealing with State action.

The categories of economic power, social power and trade-union power are clearly insufficient for understanding the nature and degree of representativity of the State and the possibilities of relative independence in particular periods. These categories also fail to grasp the essence of income distribution and the basic characteristics of the inflationary process.

In an analysis of power relations, it is essential to start not from distribution but rather from basic economic relations, which are more general. This means analysing the various fractions of the bourgeoisie, their specific interests—economic, political and ideological—and interrelations, links, articulations and alliances. This means differentiating by size of establishment, by origin of property and by branches of economic activity. This would lead to the identification of agricultural, mining, exporting and domestic-market-oriented industrial fractions, as well as commercial intermediaries and financial intermediaries.

Furthermore, it is also important to differentiate among the middle layers, particularly the technobureaucracy within the State apparatus, the urban and rural organized trade-union movement, and finally the various characteristics of the agricultural sector.

If the inflationary process stems from the distributive struggle, this means that basically it is a problem of price structure. The price structure is highly influenced by power relations and by the role played by the State, which to some extent represents or results from that power structure.

The level of abstraction of Prebisch's contributions and the categories he uses blur some distributive conflicts among fractions of the bourgeoisie, as well as specific actions by the middle strata which largely explain inflationary processes in some countries of the region, when the trade-union movement has suffered reverses and real wage levels have dropped considerably.

The action of the State on the price structure is very significant. That is why it is important to analyse the State in order to see what social forces are determining the inflationary process. The State influences the price structure through the use of economic policy instruments, particularly in countries where it is responsible for fixing the exchange rate, a range of prices of goods and services, public service rates, subsidies, wages, the interest rate, tariffs and taxes and direct intervention in marketing processes.

At bottom, the changes in the price structure which lie at the very heart of the inflationary processes are highly affected by the characteristics of power relations, which makes it necessary to include the socio-economic categories suggested above, considered more suitable than those used in Dr. Prebisch's articles.

These categories could also allow a better understanding of the problems of income distribution. It would be possible to see more clearly who benefits from and what sectors are affected by the economic processes of the region.

It is important to highlight the influence of State action on income distribution, which is not sufficiently emphasized in the articles under consideration; and it is also worth stressing the importance of the problems arising from production heterogeneity as a

major factor in the income distribution situation.

The analysis by technical layers, defined by differences in levels of productivity, is extremely thought-provoking and highly fruitful for a better understanding of employment problems, but not for the analysis of the distributive conflict. Economic power cannot be treated as a single whole; the components of the trade-union movement may be located at different technical layers.

Another significant example of this type of analysis is the case of Peru. The components of the economically active population situated in the layers of lower productivity are basically the agricultural smallholders, occasional landless agricultural workers, own-account urban workers, and employees of very small urban establishments in various branches of economic activity; the income they receive is below the essential minimum for satisfying their basic needs, and they comprise 50% of the families of the country. An analysis of their demands and interests brings to light a variety of clear conflicts, particularly between the components of the urban area and those of the rural area; and this hinders the possibilities of alliances and joint action.

Dr. Prebisch's analysis also suggests that there is something mechanistic in the relationship between the economic and political spheres; the loss of the basic principles of democratic liberalism, stemming from the distributive struggle, is an example of this. The above-mentioned socio-economic categories would also be helpful for an understanding of these phenomena.

The analysis of their specific economic, political and ideological interests, the various real conflicts —expressed *inter alia* through the income distribution and inflation— and the possibilities of alliances are fundamental for grasping the possibilities of social change and of changes in the prevailing economic models whereby the system may be reoriented towards development styles which are more egalitarian and are based on the fundamental principles of democratic liberalism.

# Some CEPAL Publications

**Los bancos transnacionales y el financiamiento externo de América Latina. La experiencia del Perú, 1965-1976**, by Robert Devlin, CEPAL, Santiago, Chile, 1980, 265 pages.

This book seeks to analyse the loans granted by private commercial banks to a developing country, providing previously inaccessible data on commercial bank lending and critically evaluating the impact of the banks on economic development.

Since its primary concern is the activities of private commercial banks, it takes a close look at their involvement in external finance, a topic which has frequently suffered from insipid generalization. This focus has its disadvantages, however: for some, the fact that it is so specific may magnify beyond reasonable proportions the role of the banks in the economy of Peru and, consequently, in the well-publicized problems of that country. Undoubtedly, a big proportion of the economic difficulties of Peru originate within its own frontiers, but whereas this side of the problem has been well developed in other academic publications much less attention has been paid to the role of external agents in this country's difficulties, and one of the most important of those agents—the private commercial banking system—has virtually escaped scrutiny because of the dearth of specific information on the lending by these institutions. Thus, while not diminishing the importance of the internal deficiencies in the economic policy of Peru, the author tries to counterbalance the orientation of the current body of literature, placing special emphasis on the involvement of the banks (and other external agents) in the economic difficulties of the country.

It should also be pointed out that although this is a case study relating specifically to Peru, much of the data and analysis relates to the general issue of commercial bank lending to developing countries and is therefore capable of broader application.

There are at least two reasons for thinking that general lessons may be drawn from this study. First of all, some of the symptoms of the Peruvian case are also apparent in other developing countries (e.g., Jamaica, Bolivia, Zaire and perhaps Nicaragua) which have borrowed from banks, and furthermore, as debt piles up in the Third World and domestic political régimes evolve towards more democratic processes, the list of 'problem' countries could expand and even include some developing country borrowers which are usually considered to be highly solvent. Secondly, while banks have undoubtedly learned from past errors, which will certainly be reflected in their future credit strategies, much of their behaviour nevertheless seems to be dictated by the fact that they are private commercial institutions and by the structure of the international financial

market, so that there is no great reason to expect radical alteration of their behaviour in the medium term.

In its conclusions, the study raises serious questions about the dominant role played by commercial banks in the external finance of developing countries. It is obvious that the new activities undertaken by the banks during the 1970s provided the developing countries with a useful financial tool for their economic policy. However, it is a tool which seems to call for restraint and may have clear limitations with respect to the needs of economic development. The maturities that banks offered on their loans were very short relative to the long lead times of many activities related to broad-based socio-economic development, and this happened even in the best market conditions. Nor was refinancing shown to be an adequate way of solving this problem. In the case of Peru, banks have also displayed highly erratic lending patterns in terms both of the amount of credit available and of its costs and conditions. When banks were in an expansive mood in the early 1970s, they took the initiative in extending many loans to the Government with no questions asked. In view of this seemingly unlimited external financing, the inexperienced public sector assumed that it could bring about the rapid development of the country without recourse to measures which were economically expedient but politically disagreeable. In actual fact, the bankers' loans had the harmful effect of covering up structural and policy weaknesses in the economy to such a degree that many banks themselves apparently did not anticipate the ensuing problems which would be bound to arise. Only when financial imbalances became grossly exaggerated did the bankers react. Then, when the authorities attempted to adjust the economy, the banks confined themselves to refinancing prior debts on extremely harsh terms, which served as a mere stopgap measure and certainly did not help to relieve the debt servicing situation. It has also been shown that the banks actually intervened in the internal affairs of Peru and protected the interests of their transnational clients at the moments of the borrower country's greatest vulnerability. As soon as it became apparent that the economic adjustment process could not be effected rapidly because of internal resistance to the social and political costs required to amass the foreign exchange for debt service, the banks panicked and refused to extend any credit unless Peru deflated its economy according to the IMF prescription. Thus, the commercial banks showed that they are not prepared to deal with the economic disturbances and uncertainties which often arise in developing countries, particularly in periods of economic crises. Indeed, to employ a popular joke of the period of financial crisis of the 1930s (quoted by Nurkse) bank loans to Peru were "like an umbrella which a man is allowed to borrow as long as the weather is fine but which he must return the moment it starts raining".

The underlying problem is obvious: commercial banks are not development institutions, and due to their commercial and private nature they prefer types of investments and loan maturities which are difficult, if not impossible, to accommodate to the broad socio-economic goals of development, which are typically long term and governed by social criteria.

**Water, Development and Environment in Latin America,**  
Oxford, Pergamon Press, 1980.

This book consists of two parts. The first presents a general description of the water-use/environment relationship in Latin America, a synthesis of the case studies and the overall conclusions. The second part consists of nine studies of particular examples of water resource development projects, namely, those of San Lorenzo, Peru; Guri and Caño Manamo, Venezuela; La Chontalpa, Mexico; Guanabara Bay and São Paulo, Brazil; the river Bogotá, Colombia; and the rivers Maipo and Aconcagua, Chile.

The basic hypothesis around which this study is structured is that the intensification in the use of water and related resources in the Latin American region will require water managers to take much greater account than they have in the past of the long-term social and ecological consequences of their decisions. The corollary is that the changing relationship between water use, development, and the environment call for a change in concepts and approaches in the planning and management of the resource.

Inevitably, water management must concern itself with interactions with different economic sectors such as energy, industry, forestry, agriculture, etc., as manifested in both physical and social terms through the effects on the long run productivity of natural and artificial systems. The purpose of this study is to examine the nature of these relationships within the context of contemporary economic and social change in the region, in order to help provide a sounder basis for the incorporation of the environment dimension in decisions on the management of water and related resources in the region.

The procedure developed in the study is, first, to establish the general physical, economic and social context in which contemporary water management is placed in Latin America. Clearly, there are many characteristics of the region which condition decision-making processes on water use and which, in sum, set Latin America apart. Within this general setting, the selected water management case studies are examined in detail.

From the experience reflected in the case studies general conclusions are drawn on the environment/development relationship in Latin America, as illustrated by water use, as well as more specific conclusions regarding suitable water management practices in the region. In this respect, it is suggested that, in any effort to explicitly incorporate environmental considerations into water management, there is need for greater integration of planning and management to take a broader view of the nature and extent of the system to be managed, and for broader participation in the decision-making process of those affected by the decisions taken.

The fundamental conclusion of the study is that approaches to water resource management in Latin America must be rethought. More attention must be given to the specification of the social and economic objectives of management and to the need for long-term sustenance of the natural ecosystems. More must be known also on the nature of the social and physical conflicts generated by the intensification of water use and on how to reduce them.

These innovations will not come easily, since—quite apart from the institutional, technical and information problems involved—little is known on how to secure proper perception of the problem in water management agencies. Those responsible for water management must be convinced of the practical advantages of change and it is hoped that this report will contribute to that end.

**Perspectivas de reajuste industrial: la Comunidad Económica Europea y los países en desarrollo,** by Ben Evers, Gerard de Groot and Willy Wagenmans, "Cuadernos de la CEPAL" series, No. 35, Santiago, Chile, 1980, 68 pages.

The opinions of those responsible for formulating policies in the developing countries about the conditions in which their countries could export industrial products to the markets of the developed countries are important in determining the shape of future development strategies. The possibilities of exporting, however, depend not only on the industrialization and trade policies of the developing countries but also, and even more directly, on events in the industrialized countries and the policies applied by them.

In this Cuaderno an attempt is made to outline some of the main determinants. This serves as a base to advance some ideas concerning the future of the international division of labour between industrialized and developing countries, especially with regard to the future pattern of the location of industrial activities. In particular, stress is laid on the position of Europe and specifically of the EEC.

Chapter I contains a rapid overview of international industrial development in the past three decades. Increasing internationalization of production and trade, especially among the industrialized countries, together with rapid technological innovation and diffusion, are among the crucial factors accounting for the dynamism of the industrialized countries.

In chapter II a frame of reference is given which may serve as the main foundation for analysing the process of transfer of productive activities to countries with lower wage levels (a process in which European industry is taking part), and some hypotheses are formulated as to the future growth pattern of the EEC within the international framework.

Chapter III gives a rather more detailed analysis based on the nature of the production process and of international competition, and industrial activities are classified in four categories: manufacturing (heavy and light), the production of semi-manufactures, heavy industries producing capital goods, and packaging and assembly industries. For each one of these categories forecasts are made concerning their possible relocation, and it is concluded that industries in the first and last of these categories are those which are most likely to be transferred to the developing countries.

The final chapter concentrates on an analysis of the problem of the possible policy reaction of the EEC in response to the anticipated changes in the international division of labour.

**Un análisis sobre la posibilidad de evaluar la solvencia crediticia de los países en desarrollo**, by Alvaro Saieh, "Cuadernos de la CEPAL" series, No. 36, Santiago, Chile, 1980, 82 pages.

There is increasing concern among economists and bankers about the capacity of the developing countries to meet their external financial commitments: this concern has been reflected in extensive debates on the subject, which have been based increasingly on 'indicators of credit-worthiness'. Thus, in recent times a number of criteria or indicators have been constructed with the idea of evaluating, as accurately and objectively as possible, the risk involved in credit transactions with developing countries.

The objective of the study reviewed here is to analyse the various most commonly employed indicators of credit-worthiness to see what they are intended to measure, what they actually do measure, and the main virtues or drawbacks of each of them; it is not aimed to construct a system or method of evaluating the credit-worthiness of countries. This is a critical analysis in that it does not seek to justify these indicators but rather to demonstrate their relative worth. The author chose this approach because, despite the fact that they are obviously partial, in some cases these indicators have been used to make a definitive judgement concerning the external financial solvency of countries, thereby doing serious injury to the nations concerned. This does not mean that the indicators in question are not useful for analysing the credit-worthiness of countries, but rather that extreme caution must be exercised in drawing conclusions based on an indicator or on a combination of indicators, primarily because they are manifestly partial.

The credit-worthiness indicators are analysed at two levels. In the first place, an individual examination is made of each one of the indicators most commonly used in analyses of credit-worthiness, and extensions of them. Secondly, since there are many indicators and some of them are closely interrelated, their number is reduced by factorial analysis in order to select those which seem most pertinent. Those selected are more suitable for analysing the credit-worthiness of countries, but it must nevertheless be borne in mind that although these indicators are useful, they are not definitive in evaluating a country and must therefore be manipulated with extreme caution. It should be noted that this analysis explicitly omits non-economic indicators, which are also of obvious importance for judging a country's credit-worthiness.

**The economic relations of Latin America with Europe**, "Cuadernos de la CEPAL" series, Santiago, Chile, 156 pages (English only).

This Cuaderno sets out to present the main aspects of the economic relations of Latin America with Europe during recent decades and to outline some of the possible lines those relations could follow in future, especially in the industrial field.

The first chapter summarizes the main stages in Latin American development, the salient features of its internal development and its relations with the outside world. The

second chapter seeks to describe the overall trends of Latin America's trade with Europe, its trade policies, and the problem of access to markets, ending with an analysis of the principal basic commodities, such as temperate and tropical-zone agricultural products, raw materials of agricultural origin, non-ferrous mineral, petroleum and other products. The third and fourth chapters relate to direct private investment and financing of European origin in Latin America, while the final chapter outlines some of the main factors expected to influence relations between these two regions in the future. In this respect, special attention is paid to the industrial sector and the problems which may arise in connexion with the international division of labour, in both the medium and long term.

**Manual de documentación naviera para los puertos de América Latina**, part two, OAS/CEPAL Transport Programme, E/CEPAL/1060/Add.1, mimeographed version, Santiago, Chile, 1980.

The excessive amount of paperwork involved in maritime transport and the consular formalities required in connexion with shipping documentation constitute a problem which has for some years preoccupied various intergovernmental and private international organizations, some governments, associations of shipowners and transport and trade facilitation committees in different regions of the world.

This Manual prepared by the OAS/CEPAL Transport Programme describes the requirements as regards documentation and consular formalities to be satisfied by ships engaged in international traffic to and from Latin American ports, with the aim of facilitating operations and avoiding delays, difficulties and even penalties, which have an unfavourable impact on transport costs. It also seeks to foster the simplification and standardization of the basic documentation for the reception and dispatch of ships, as established in the Mar del Plata Convention and Annex and in LAFTA resolution 254 (IX). Finally, it is hoped that simply by describing the consular requirements still imposed on maritime transport by some countries of the region, the Manual will encourage them to eliminate these formalities which have already been removed in all the industrialized nations and do not apply to air traffic in those same Latin American states.

In its first part, published in 1975, the Manual contains information on the ports of Colombia, Chile, Ecuador, Peru, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, collected in the field thanks to the co-operation of the maritime, port and customs authorities in question and the main shipping companies and agencies in those countries.

Part two, published in 1980, contains similar data on the ports of Argentina, Brazil, Paraguay and Uruguay.

**Strategy for Caribbean countries during the Third Development Decade**, E/CEPAL/G.1132, Santiago, Chile, 1980, 23 pages.

This document contains the draft strategy approved at the meeting of country experts of the Caribbean Development

and Co-operation Committee (CDCC) held in Bridgetown, Barbados, in May 1980. This strategy emphasizes that the structural transformation of the internal organization of the Caribbean countries must be geared primarily to the achievement of a fairer, and not just a richer, society. Unless more acceptable levels of equity are attained, there will be few opportunities for achieving sustained growth, although it must also be recognized that without a certain amount of growth, it will be difficult to effect an acceptable redistribution.

From this point of view, and within a framework in which self-reliance and self-determination have not been looked upon with favour in the past, the search for development is predicated on the possibility of making substantial progress with regard to:

- the reorientation of education and the diffusion of ideas in society;
- the development of technological skills which will make it possible to raise the quality of the technology used;
- the optimum utilization of human and natural resources for tackling such problems as those related to job satisfaction, the full participation of women in the development process and environmental considerations;
- the achievement of structural transformations which permit a high degree of flexibility in production (i.e., a self-propelled ability to introduce shifts in production in response to regional and international demands);
- an increase in the socially available capital.

The expected results, which are obviously intimately linked with these factors, may be classified as follows: satisfactory basic levels of food, health, clothing and housing; enhancement of intangible elements for progressively raising the quality of life; and mechanisms which make it easier for people to control their own destiny.

Thus, in so far as this subregion is concerned, a suitable development strategy implies the skilful management of

these different aspects, each of them endowed with a specific dynamic of change, and cannot be achieved without a series of institutional innovations. Most significant, both the ends and the means of development in the Caribbean setting demand some form of planning, and that planning must bear heavily on the participatory aspects of the exercise.

**CEPALINDEX, Resúmenes de documentos CEPAL/ILPES 1305-1718, Vol. 3, No. 1, CEPAL/CLADES, 1980.**

With this publication, the Latin American Centre for Economic and Social Documentation (CLADES) continues its work of analysis and technical processing of the documentation generated by CEPAL and ILPES, using ISIS (Integrated Set of Information Systems). Its objective is to disseminate the thinking of these two institutions through a publication which aids the transfer and exchange of socio-economic information in the region and the constitution of a data base of easy access and easy consultation.

The materials analysed include meeting documents, working drafts (only in the case of publications whose final version has not yet been issued), reports and studies, annual reports, books, texts and articles.

In addition, to this volume, others which have been published to the end of 1980 include:

**CLADINDEX, Resúmenes de documentos CEPAL/ILPES, 1970-1976, Vol. 1, No. 1, 1977** (part one containing summaries and part two indexes);

**CLADINDEX, Vol. 2, 1979.**

As may be noted, the title CLADINDEX has been replaced by CEPALINDEX to reflect more accurately the purpose of the publication, which in the future will appear twice a year.

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