

CEPAL

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Notes and explanation of symbols

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 point (.) is used to indicate decimals.

Use of a hyphen (-) between years, e.g., 1960-1970, normally indicates an annual average for the complete number of calendar years involved, including the beginning and end years; when the figure concerns growth rates, it refers to the cumulative annual rate, in per cent, between the beginning and end years.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

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

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

"CIF" (cost, insurance, freight) indicates the cost of an item of merchandise at its port of destination, including the cost of freight and insurance.

"FOB" (free on board) indicates the cost of an item of merchandise at its port of embarkation, exclusive of the cost of freight and insurance.

The acronym "CEPAL" stands for the United Nations Economic Commission for Latin America.

*Preface**

LATIN AMERICA AND THE EXTERNAL TURBULENCE

In spite of the ups and downs and negative signs on the world scene, in 1976 the Latin American economy managed to recover partially from the previous year's decline in its growth rate. While in 1975 the gross domestic product grew by only 2.7 per cent compared with increases of over 6 per cent in preceding years, last year it rose by around 5 per cent. Incidentally, the fluctuations were smaller than those experienced in the central countries, although an influential factor in the latter was their deliberate policy to curb growth in order to control inflationary pressures.

The present year has opened with very uncertain prospects, and in some countries carrying great weight in the regional estimates, results below those of 1976 are anticipated.

Be that as it may, the necessary reservations regarding present and future trends do not deny the capital fact that in this turbulent international situation Latin America has shown a capacity for resistance and adaptation which contrasts with its critical fragility of the past, which is also borne out by the fairly benignant and transitory recessions of the leading economies following the depression of the 1930s.¹

It may be as well, therefore, to explore the possible causes of this situation which, of course, does not ensure immunity in the face of new or even harsher effects deriving from the international performance.

The basic reason is undoubtedly the wider and more diversified bases of the regional economy. Although to a certain degree tautological, this statement is relevant since it raises this aspect above others acting in the same direction, such as the greater availability of external financing. Basically, the change is a result of the industrial development process considered in its broadest sense, that is, as a phenomenon with its dynamic base in the manufacturing sector which nevertheless embraces and extends to the many varied supplementary or related activities of primary production, the public and private services sector, the fiscal economy and foreign trade.

*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.

¹In this respect, it may be useful to consult the study by David L. Grove entitled *Las fluctuaciones económicas en Estados Unidos y América Latina*, CEMLA, Mexico, 1959.

Various recent CEPAL studies have noted and confirmed this phenomenon.² Without referring again to the most significant facts, suffice it here to call attention to the key factor in the shape of the progress Latin America has made in the domestic supply of its machinery and equipment requirements. In 1950 about three-fifths of the demand for these goods was covered by imports. In 1974 the proportions had changed substantially and some three-quarters of these requirements were covered by the region's own production.

It is common knowledge that this went hand in hand with an appreciable increase in imports of these goods, which between the years indicated multiplied 3.3-fold. There was, however, a 9-fold increase in domestic production.

Thus, in this all-important sector of the production structure, as also in others, a paradoxical though not contradictory situation arose in that the active and growing demand for imports was accompanied —and largely determined— by a bigger absolute and relative expansion of domestic supply.

The overall and net result of these developments has been the greater independence of the Latin American economy in confronting the vicissitudes of its balances of payments and, by means of internal action, in counteracting the lesser incentives or negative reflections of the external situation. Obviously, the validity of this proposition varies according to the particular cases and situations considered. The greater or lesser diversification of the production base or the degree of dependence on oil imports, for example, would be decisive factors in evaluating the possibilities of success of the compensatory policies in each case. We insist, however, that these reservations do not deny the general validity of the thesis deriving from the region's performance in the face of the ups and downs of the world economy.

These considerations have a direct bearing on an argument which has been revived recently in connexion with Latin America's industrial development. Without dwelling on the terms of this controversy, which has been dealt with on other occasions,³ it is worth while recalling that some critics have gone much farther than to analyse and determine the negative features of the process and have finally questioned its actual *raison d'être*. In this respect there have even been those who lamented the fact that Latin America should have followed the path it did in the last few decades instead of choosing the procedures adopted in other regions.

This current of opinion seems to overlook the historical and spatial context of the matter. Latin America's industrialization process bears the stamp of the society and the time in which it is developing. The external circumstances of restriction or

² See, for example, the statement by the Executive Secretary at the sixteenth session of the Commission, "Latin America: The new regional and world setting", *Cuadernos de la CEPAL*, Nº 1, Santiago, Chile, 1975; CEPAL, *Economic Survey of Latin America, 1975*, and "En torno a las ideas de la CEPAL. Desarrollo, industrialización y comercio exterior", *Cuadernos de la CEPAL*, Nº 13, 1977.

³ See, for example, CEPAL, *Economic Survey of Latin America, 1975*, Part One.

strangulation of the capacity to import, lasting until well into the 1960s, are some of the essential determining factors. Another is the internal socio-economic structure reflected in the distribution of income and power and, ultimately, in the allocation of resources. Added to these are other no less influential factors such as the size of the economies, their human and material resources and the degree of social organization.

The necessary consideration of this backdrop does not mean that the flaws and gaps in the region's industrialization process must be regarded as fatal results of that general picture. In fact, these anomalies were diagnosed long ago, irrefutable proof of which are the CEPAL studies and research that go back to the beginning of the 1950s.⁴ Furthermore –and this is the most important point– the exercise was always accompanied by suggestions and action to rectify trends and negative developments. This is clearly corroborated, *inter alia*, by action to promote the regional complementarity of national markets, adequate planning of the allocation of resources, the diversification of exports and exports of manufactures, new forms of international co-operation, and more equitable income distribution policies.

It might be argued, quite rightly, that many of the criticisms and recommendations failed to rectify various negative features that persist today; but a similar situation might be found in the case of different development models, without having detracted from their historical validity. Finally, the only legitimate point of comparison is the original situation, the moment of disruption of the *status quo* which ceases to be viable or is rejected as undesirable. In such situations, societies do not have an indefinite spectrum of options to choose from in charting their new course, but are limited and conditioned to a varying extent by inherited structures and the external order.

From this point of view, there seems to be no doubt that the course followed by Latin America truly enabled it to develop in the last few decades, to expand its base and to create a growth potential which, objectively speaking, made it more feasible to fulfil its aspirations of improving the well-being of its peoples and reducing its vulnerability to external contingencies.

This fact, of course, does not make the obligation to criticize any less necessary. On the contrary, it makes it more imperative, precisely because these favourable circumstances exist to make it more fruitful.

⁴ See, for example, "En torno a las ideas de la CEPAL. Problemas de la industrialización en América Latina", *op. cit.*

Latin America in the possible scenarios of détente

*José Medina E. **

There are a number of indicators which point to the possibility that some slackening may be occurring in the rivalries between the great powers which may lead to the final solution of the "cold war" and the beginning of a period of stable and lasting international peace. If international relations really are moving towards such a change, then what would the economic, political and ideological repercussions of this development be for Latin America? The author of this essay in social futurology puts this question and, after first of all setting out the salient features of the "cold war", devotes the central part of this article to an analysis of the effects that such a détente in international relations would have on Latin America. Three different types of possible détente —co-operative, competitive and conflictive— are presented and the implications of each of them are considered with special attention to the likely consequences of the first one. Among these consequences, the author highlights the predominance of cosmopolitan and universalist attitudes in international relations, ideological "decentralization", the expansion of markets, the weakening of the system of satellites, the prevalence of non-authoritarian régimes, etc. Finally, the author analyses the repercussions of détente on three key questions in the development of the region: its situation on the periphery, the contradiction between political and economic rationality, and Latin American integration.

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I

The presages or awareness of a historic change

*Parallels between the anxiety
felt in 1945 and 1975*

Although their ranks grow steadily thinner with the passage of the years there are quite a few people alive today who cannot help having the disconcerting feeling that they have somehow already seen everything that we are experiencing today. Are we really passing through an identical process? The political leaders are not the same: they are perhaps different not only in their own character but also in the situations they are facing. The intellectual participants, however, in their efforts to find something meaningful to say in response to the demands of the moment, have been drawn into almost the same approaches to themes and concerns as those which prevailed around 1945. There was a decided and almost overwhelming leaning in those days towards the subject of peace, and this is being repeated today with the same existential anxiety. How can we organize peace in a viable and effective way in these different times? A comparison of the literature produced around 1945 and around 1975, which are the approximate dates of decisive moments in recent history, would naturally display important differences in some points, but underlying it all there would be the same fundamental concern: the conviction that all the problems of our time depend in the final analysis on the manner in which the organization of world peace can be achieved and perfected.

Among economists — be they politicians or intellectuals— there can be doubt that the prime concern is the need to achieve a new form of organization of international economic relations. But at the same time it is obvious to everyone that this particular viewpoint raises anew some of the questions which were discussed most ardently thirty years ago, although they were subsequently forgotten and are now being analysed in different terms. The avalanche of frequently extravagant disquisitions on the different forms of federations and confederations is no longer present today in the same manner, although the idea discussed at that time regarding functional federations limited to a few purposes is reappearing today in a different guise but in all its former fertility. On the other hand, however, no one today can fail to stress —even though it be allusively or even elusively— the unavoidable problem of the concept and validity of national sovereignty. It is worth emphasizing this, because this is the clearest example of the phenomena of repetition referred to earlier and it clearly shows that, whatever the lines along which today's concerns run, all culminate in the same fundamental nucleus of peace itself. Without the prior reassertion of peace, of a general state of peaceful coexistence, all kinds of technical proposals on specific problems are bound to be nothing more than steps into the void.

As the creative efforts deployed on behalf of peace in past decades led to the establishment of many institutions, there is nothing surprising about the fact that many projects and proposals for the future are now emanating from these

same institutions and are in terms of them, thus consigning to oblivion the original efforts and groundwork which made them possible and which amounted in effect to an effort to build a lasting peace after a devastating war. Of course, the contents of the new range of projects and proposals put forward by different or reorganized institutions is perfectly justified, because the institutions now in being have to face problems which were either completely unknown before or were only vaguely glimpsed (contamination, exhaustion of resources, etc.). It is none the less true, however, that such problems, although perhaps new in appearance, depend for their solution on the existence of a stable peace.

Therefore, the theme which is once again before us is that of peace in all its deep significance, and this is why it imparts to the intellectual searching of the present day its marked relationship and affinity with the quest carried on in the late 1940s, in which some of us, with youthful daring, were enthusiastic participants. Proof of their parallel nature would not be difficult to find through a mere analysis of the titles of books, articles and papers, since throughout what is now a rich diversity of issues there appear time and again statements which continually remind us of the fundamental task which makes all the others of secondary importance and even to some extent superfluous. These present lines fall within this type of reminder, and perhaps this is their greatest significance, even though they are devoted to outlining other and more specific considerations.

The different conditions of the present setting

Are we at the beginning of a historical event of such magnitude as to represent a turning-point in our historical process? A change of such a nature that it leaves us at liberty to try out radically original approaches to building the future? The flights of imagination of some who have taken as their starting-point facts which really exist and are in no way imaginary incline us to assert that this really is such a turning-point and to look forward—either optimistically or pessimistically—to a completely new or novel future. Quite apart from the fact that all futures necessarily bring along with them something of the past, from which they are nourished and of which they are a continuation, however, more sober consideration of the changes we are undoubtedly living through and experiencing makes it neither permissible nor advisable to take any millenary attitudes. It is a well-known fact that while a considerable proportion of the components of the historical experience which we are living today appear to be new or at least not to have been experienced before in their present form, another no less important and decisive proportion is made up of facts known from long ago whose dead weight prevents us from gaining, as in science fiction, an advance view of the future.

Bearing in mind the empirically possible and determinable, it would be an act of blind ignorance to deny that today we are facing in all fields—politics, economics, culture—a situation very different from that which prevailed thirty years ago, and this state of affairs calls for an effort to find original answers which are naturally different from those we are used to. But perhaps it would not be desirable or viable to describe the novelty of this situation as a

historical fact whose future is beyond our capacity of exact forecasting. The forecasting of what is possible must not be confused with divination or prophetic inspiration.

However many similarities and parallels there may be between our concerns of today and those which prevailed around 1945, however, the starting point and the fields in which we desire to gain knowledge and take action are considerably different. Thus, although the theme of peace is once again the essential and fundamental field of our immediate aspirations for the future, there can be no denying that the conditions in which it arises today are different. It is important to add, however, that the most decisive point is that which is necessarily implicit in this assertion, for these different conditions in which the problem arises are at the same time determinants of the real tendencies which must be kept in mind in the evolution of history.

What are these conditions which are different or changed in the new setting?

In the summary form which will be followed in this paper, the following conditions could be examined, among others. Firstly, the need to study anew the foundations and forms of instrumental organization of a universal peace of the longest possible duration is not now the inevitable consequence of an agreement between victors and vanquished following a struggle which has caused clearly visible destruction whose reparation is a matter of life or death to the two sides in dispute: today, in the absence of this easily perceptible dramatic quality, it is merely the consequence of a stalemate. The protagonists in long drawn out, difficult and exhausting moves now see that at the end of their

complicated game there is no way out from a situation of deadlock.

This stalemate is not a static situation in which they can remain, however: on the contrary it is something which moves and changes unceasingly, with inevitable ups and downs —if this were not so and the stalemate could change into a lasting stage there would be no problem and this would not trouble the protagonists and onlookers, who would in this case be the assumed beneficiaries of a stable situation, be it pleasant or disagreeable. Both sides, however, realize that it is necessary to go beyond the stalemate, without breaking it withal, in order to create other general conditions of security. This means that there must be a new aspiration, if not for everlasting peace, at least for a minimum of organization which will make possible the forward planning which is the only procedure that can give all those involved a relatively permanent stage of peaceful coexistence. It is quite possible that the results of a stalemate may be less favourable for the common endeavour than the tangible consequences of a disaster. They would appear to call for larger amounts of reasonableness and for an intelligence which does not satisfy itself merely with what is visible and can scarcely be based on immediate emotional impulses or on the short-sighted defence of the short-term interests which have been achieved. Setting about the task of organizing a new peace after a stalemate is for many a risk which involves the possible sacrifice at some stage of the vested interests of the participants, no matter how precarious these may be in the present situation. There is no way of setting about reasoning regarding the building of the future, however, without taking into account as the first fundamental objective possibility everything that is

signified by the emergence from a stalemate which cannot be continued indefinitely in the present circumstances, not only because it is unjust but because it is pragmatically unstable.

The second condition lies in the fact that in the course of the years spent in achieving such a stalemate there has simultaneously been a rise and crisis of the opposing systems, thus offering opposing arguments and stimulating contradictory sentiments on both sides. But anyone who does not want to view matters only in black and white must accept both the rise and the crisis in all their complexity. Among the supporters and protagonists of the two opposing systems, the more alert individuals are bound to perceive both these things more or less clearly or distinctly, and to the relatively dispassionate view of the historian the details of the rise and crisis speak for themselves. Both systems have had their undeniable triumphs but also have to live with the awareness of their own failures. The market economy countries, and above all their foremost exponent, display some notable ups and downs not only in the socio-economic, social and cultural fields, but also in the results of their international policy. The same is true of the opposing countries with centrally-planned economies, which show comparable successes and failures in the same fields, since there is no lack of notable successes in their international power plays. Nobody has a better awareness of the failures and faults which threaten to repeat themselves, however, than the leaders of these systems. It was of course to be expected that in the hour of truth of their impending task they should have a full consciousness of both the rise and the crisis of their systems in all their profundity, but it is not so safe and logical to expect the same thing from many of the onlookers

who, even in the centre of events, have not been able to experience themselves the different reasons for triumph and danger.

Another of the changed conditions among the circumstances which now make it essential to seek a more stable reorganization of world peace is undoubtedly the apparent breakdown of the "pax americana". It is a well-known fact that the historical forms of an effective peace –if not in the world at least in big areas of it– have been of different types. The types which are important to us at present, however, are those deriving from definite impositions of power. The most famous and lasting example –both while it actually existed and through its influences as an aspiration and a memory– is beyond any doubt that of the "pax romana", and it would by no means be inopportune –if it could be done here– to examine how it was possible and above all the factors which led to its downfall, that is to say, to examine the set of political, military and economic conditions which culminated in the radically changed picture of the later Middle Ages. The explanation based on the considerations of military weakening and the transition from a coastal trading economy to another economy based on settlements in the interior because of the exhaustion of the slave labour on which the original system was based is certainly the most stimulating for the analytical understanding of subsequent phenomena, including the most recent ones.

The "pax britannica" constitutes the form of organization of peace which is historically nearest to our own times, and it is not difficult to get an idea, from this viewpoint, of the facilities which were available to it for its installation and maintenance. Being as it was the immediate result of the industrial revolu-

tion in a world open to the possibilities of the country's expansion in vast tracts of the globe, it was able to maintain the necessary strategic vigilance for a long period through relatively simple mechanisms such as the old instrument of the balance of power, the banking monopoly, and the country's maritime position, backed up by a set of dispersed but well-situated strategic posts.

At the end of the Second World War, it fell to the lot of the United States –the victorious power which was economically, militarily and technologically richest and most powerful, and the State whose economy was most intact after the disasters of the war– to carry out on its own account a new experiment in universal political peace: the "pax americana". Since there appeared to be the necessary domestic political will in the country to carry this out, steps were indeed taken to put this venture into effect, for all concerned initially viewed it, regardless of whether or not it was to their taste, as a practical possibility. Thus, along with its economic and organizational functions this powerful republic also took on the role of world policeman.

Since this is not the place to go into details about what took place it is sufficient to note that the United States undertaking began in conditions which were very different, because of their complexity, from those faced by England at the beginning of its period of domination. Consequently, the burden of the enormous cost of the "pax americana" –sometimes made heavier as a result of its own success– soon began to make itself felt. The fact that it lasted a shorter time than that originally foreseen and suggested is something that can be explained in concrete terms, especially in the light of the dangerous repercussions that this exhausting experiment in the

external field began to have on the social consensus of domestic policy. Ignoring alike the satisfaction of some circles and the regretful anxiety of others, the breakdown of the "pax americana" is a straightforward fact which interests all of us equally, and it is a determining factor in our present tasks.

There is no point in any other speculation in this respect. There is justification, however, for two simple assertions which are very far from any possible suspicion of pretended futurological wisdom. Firstly, the fact that it was not possible to completely realize the idea of a very long "pax americana" does not in any way mean that the United States as a power has lost its attributes as a hegemonic figure. Obviously, it is still perfectly possible for this country to exert its hegemony when it sees fit in its various fields of interest, although this may be in a more or less reduced form, either by its own choice or because of a prudent awareness of the new limits.

But just as the United States century did not come to pass as promised, neither did the much-vaunted Soviet century (1917-2017) prove to be capable of achieving universal validity. Secondly, therefore, there are likewise no grounds for presuming that the Soviet Union wishes to take on in its turn the risky role of the world policeman. The very clear awareness of the enormous economic costs and serious political and military risks which had to be accepted by the splendidly endowed United States, which is rich in literally all classes of resources —including intellectual resources, of which it undoubtedly has an extremely prolific supply— makes it improbable that the Soviet leaders are preparing to repeat the United States experience and to try to fill in a serious manner the vacuum left by the United

States withdrawal from such a difficult and thankless task. If this is so in the case of the Soviet Union, which is a leading power fully up to the level of its sometime adversary, then it is impossible at present and for a long time ahead to visualize any other power which might aim to take on the unclaimed role of effective universal peace keeper.

It would be impossible to leave out of this rapid overview of the changed conditions which influence the new resurgence of the problem of peace those which have arisen, with the passage of the years, on the very chessboard of the international game itself: that is to say, leaving metaphors aside, the various shifts which have taken place in the system of international forces. This is not the moment to take them into consideration in detail, however, and it will be necessary to return later to some of their components, such as the significance of the big expansion in what have been called transnational relations —i.e., those outside the international organizations proper— which constitute, in their various forms, a system of powers of various sizes that must of necessity be taken into account in any attempt to approach the organization of the future in an original manner.

What it really is important to refer to now, however, is rather the appearance and strengthening of new political powers which, after being absent for a long time from international politics proper, can be expected to aspire to manifest themselves either indirectly or directly in the years to come. The apparently paradoxical aspect of this is the fact that some of the new powers, although not all by any means, have been the result of policies followed after the organization of the peace of 1945, which did not seek to set up these powers as centres of international

decision-making, but as nuclei of economic expansion or, at the most, as a means of stabilizing economic activities. A typical case is that of the European Economic Community, which some people treat as an authentic political power even though, however great its economic power may be, it still lacks the decision-making organs for defining and putting into practice an international policy proper. The case of Japan is a different matter, but this is not the moment to go deeper into this.

Among the different or sharply modified conditions displayed by the world today in connexion with the new approach to peace, it is impossible to deny the significance of the active effervescence of the Third World. Already many years ago the most forward-looking intellects began to equate the north-south relationship with the then better-known east-west relationship. With the passage of the years the north-south relationship, equivalent to the distinction between rich countries and poor countries, to say nothing of military and political power aspects, has been moving into the foreground because of its economic dimensions which, quite apart from the principles of

justice, raise questions of technical competence and concrete policies of all types, on whose success depends the possibility of world-wide co-operative co-existence. Not long ago, such a man as C.F. von Weizsacker, for example, insisted from the conflictive centre of the European experience that in planning a more stable peace it was necessary to take into account, along with the problems of the "military peace" between the first and second worlds, what he described as the great task of achieving a "social peace" on a world scale. "No such peace exists today, and there is absolutely no prospect that it will". An important part of the peace plans must therefore be centered around the realities of the Third World and must bring a minimum of order into its "contradictory interests" vis-à-vis the others.

Indeed, the growing intensification of this intellectual and moral awareness has been due to the active participation of the Third World, which, by its spontaneous or concerted demands and various acts, has made clear its abandonment of a passive position which was only capable of attracting the attention of a few clear-sighted persons.

II

The lost illusions

Reasons and unreasons

Particularly since the early years of the present decade, a negative tone of feeling has begun to appear among the internationalists who have been active either in the field or through writing (both these things at once in many cases) and who, on looking back on what has been

achieved in thirty years of effort, declare that they no longer have the optimism that previously sustained them. As usually happens in similar cases of disillusionment, discussion has reopened on the reasons for this and mutual recriminations have begun to be

launched from the various positions. Realists and idealists are once more at loggerheads and sometimes venerable themes of political science are coming again in the field of theoretical encounters. In their disillusionment, the main blame for the continual conflicts and difficulties is being imputed to human weaknesses and to selfish and short-sighted attitudes of the various actors in international politics, especially the leaders in this field. The unfinished discussion has thus been renewed in the form of a vicious circle about where the changes should begin: whether they should begin with the reform of man or with the remodelling of society and its institutions.

The examination of the reasons for violence has been a critical case in recent years. Some have stressed the fallaciousness of the order, which although conceived as a perfect system always comes to naught in reality because of the persistence of frequently unforeseeable conflicts caused by the confrontation between interests and motivations. Others highlight as a cause the assumed anachronistic persistence of the prominent role played by policies of security in respect of the principle of sovereignty in a world which is interdependent in many factual respects far more decisive for the values of mankind than such policies. In such cases, priority belongs to well-being and "happiness" rather than to sterile ambitions for power. Finally, there are those who, in complete desperation, stress as the true cause the failure of the political and intellectual capacity of contemporary man to bring him out of his condition of sorcerer's apprentice and to enable him to dominate in some way the extremely complex situation brought about by his own scientific and technological creations. This negative feeling also extends to the various international

organizations and the schemes of relations set up in the post-war period as the "true" foundations of peace, and criticism stretches from the monetary system down to the smallest departments of the United Nations.

Unlike what happened in the field of philosophical, scientific and political matters, however, where it is difficult to point to a final decisive position and recognize an abstract truth, the criticisms generated by disillusionment with the system of institutions in which we are still living frequently go beyond what is just and reasonable. This is not the time to speak at length on the achievements and failures of all these. Although they are in no way perfect — nor could they ever be so — they nevertheless display in the ups and downs of their lives, depending on the various moments and circumstances, achievements which although only partial are still an effective contribution for the benefit of mankind. Reforms and complementary measures are called for without the slightest doubt. Even the most biting critics should not forget, however, leaving aside these or other limited achievements, what they have amounted to all together as a centre of information. Decisive success must today be considered as being the extent to which this information has had an instructive value, because without this there would not be the broadening of awareness of contemporary man which enables him to set about with new spirit the continuation of what has so far been achieved in the unfinished task of establishing a lasting and juster peace.

There is something in common among those who flaunt their lost illusions, leaving aside their different will to react. This common factor is the conviction shown by all, disillusioned or enthusiastic, that we are at the end of an

era, at the probable end of the structure of peace built up in the post-war period and in the immediate past, and which is still a reality present today. But in most cases, this situation remains without satisfactory explanation, although there

is also general agreement —albeit not always for clear and objective reasons— that “all the present indications point to the 1970s being an even stormier period than the preceding decade” (W. Laqueur).

The opposing extremes

It can hardly therefore come as a surprise to us that such a situation, which is dominated in reality by an awareness of crisis, is also a time of extremes. I mean, of course, extremes as regards intellectual positions, since this is not the place to discuss the extreme positions which involve actual action. On the one hand, there is the extreme pessimistic view of total failure, while on the other side there is the optimistic view of the construction of a utopian future: such is the backward and forward swing between optimism and pessimism which typifies modern “futurology”.

At one extreme we now have the renewal of a Spenglerian tone which does not limit itself to predictions of the decadence of the West but also covers the civilization of the whole world and which, although on the one hand supported by followers of historical interpretations, also includes on the other hand representatives of the purest positivist “scientism”: from the predominantly Italian group which sees the prospect of a new Middle Ages to the group which uses the instruments of “global heuristics” to predict the great perils threatening us.

I do not intend, of course, to go into a long disquisition on this subject here, but simply to recall this matter because

of its importance in later parts of this work.

The position of the critical intelligence, of the kind of intellectuals who had in mind the well-known warnings of the Schumpeterian interpretation, does not need now to seek support for its negative views in the legacy of oft-repeated doctrines. It is sufficient for it to point to what is developing or being attempted in the present political and economic conditions to maintain that the great techno-structures which are taking shape in the present picture will eventually lead, because of their small number and the enormous power at their disposal, to various forms of feudal organizations under which the other social groups will try to survive in larger or smaller geographical areas. Just as happened when the Roman Empire broke up, a new type of feudalism with its own special relationships of vassalage and protection will emerge. Comparison with this starting point makes it possible subsequently to extend or seek the parallels between the two types of “Middle Ages” in the whole range of their social and cultural manifestations. A new Renaissance whose features cannot as yet be clearly described may also be over the horizon. The comparison is not novel, and it had already been made a number of times before. The novelty

lies in extending the analysis of the great political and economic techno-structures of our time —the so-called technotronic era— to such futurological projections. The international field will be marked by the predominance of the production and consumption relationships of a few “trend-setting economies”. Whatever the way of life will be in the “neofeudal state”, however, it will be very far from that which gave rise to European liberalism.

Not only the critical intelligence, however, but also the most purely functional intelligence —that of scientific research workers— have taken paths which are not dissimilar in their results in certain aspects, although the main aim of this enterprise is to point out some perils which it is “still” possible to stave off. Moreover, it is also clear that the components of this group display a great diversity of orientations which it is not easy to put in order, although there is a quite acceptable summary. It would be necessary to include in any relatively complete statement of this —which is outside our theme at this moment— such matters as the renovators of classical controversies like the stationary economy of John Stuart Mill, passing through the various critics of the developmentalist idea, until we arrive, via students of ecological problems, of the population structure, and of the available resources, at those who believe in the global menace of economic development, regardless whether or not they are explicit supporters of the zero growth concept. This short reference is enough for the moment. The consequence, leaving the choice open as a matter of taste, is that there is a wide range of related visions of the breakdown of civilization, all of disturbing topicality. Which of these visions is to be preferred? The great historical canvas infused with the intense

Hebelian drama of a twilight of the gods, or the cold obituary with which the technocratic intelligentsia threatens us on the basis of their complicated computers and their imposing curves taken from exponential mathematics? Whatever one’s preference, an outbreak of panic would make it very difficult if not impossible to face the future in a decided manner. Fortunately, however, it does not seem to us that the situation is really like that.

In contrast to these warnings of more or less serious disasters that are to be expected in the more or less near future, there are also those who go to the opposite extreme and spread utopian optimism. Just as in the years between the wars we find in various places the men of good will who inspired in that period the overall title of the numerous volumes written by a famous French novelist. They too are students or investigators, technocrats and persons of some experience in political and administrative affairs, and united in groups and committees to which they are elected or co-opted they bring their good will to the elaboration of projects containing suggestions or solving the most varied problems, from the reform of the monetary system or the new orientation which undoubtedly needs to be given to scientific or technological research, to the proposals for reformed international organizations or the establishment of “world authorities” in various fields such as food or the equitable exploitation of the resources of the sea. Frequently, the utopian nature of their views is revealed by the varied titles chosen —“towards another form of development” for example. Usually, it is the result of an ambitious or almost complete set of measures offered as the indispensable framework for a better future. These committees, with their various experts,

leave no aspect of the "desirable new order" untouched, and this makes reading of the "project" attractive and stimulating. Nor do they fail to inspire and enrich each other mutually. It would be wrong, however, to take the term "utopian" as a pejorative and final judgement on this rich harvest of projects, reports and memoranda set before us at present. Firstly, because men of good will, before and after the words of the Evangelist, deserve our greatest respect and gratitude. Like those who believe in Reason they continue to be the salt of the earth. Secondly, because the question of being utopian is a question of the total set of features or the "system" of the proposal, and it does not in any way affect the validity of many of its components, since these may be concrete proposals on particular points which are worthy of the most careful consideration and may possibly serve as the starting point for elaboration in detail. And thirdly, because the utopian position cannot be attacked in principle: a utopia is always a vision of the future and it does not mean that society is doing badly, as certain thinkers claim, because the lack of it may perhaps be indicative of a serious inadequacy in the interpretation of the present. In the present indecisive times, a few rays of utopian hope are by no means superfluous.

Sometimes, not everything is utopianism in this rich range of projects, because when they fix dates and specify time limits they give rise, on the contrary, to psychological problems of another type because of the postponing of expectations. What happens, for example, when in a serious report halfway between the immediate and the utopian a time-span of 30 to 40 years is mentioned for bringing down the difference in level between the rich and poor countries to the proportion of 3:1 which

is precisely the proportion prevailing between the regions of one of the richest areas of the earth? We are indeed very far from utopia, but how can we avoid discouraging the impatient or avoiding the cynical declarations of those satisfied with these bare dates? It could well be, however, that the proposition is in itself technically correct. In this case, then why not set about its realization with all the energy necessary to give the lie to these opposed views?

If we take stock of what is contained in this paragraph we arrive at two different sorts of apparently unconnected conclusions. Firstly we have the acceptance of the unanimous conviction that we are faced with a turning-point in history, that it does appear to be a fact that the structure of peace achieved in the post-war period can hardly be expected to continue, and that we must therefore set about building another peace with renewed efforts. In this task it is also necessary to accept and take into account the fact that the actual conditions as they occur at present are very different from those to which brief reference was made earlier. But at the same time, we must take into account the fact that the intellectual circles among which we live are in a state of ferment, and that not everything in the debate between their extreme representatives is suitable grist for our mill, since some of them issue serious warnings about real perils which it would be suicidal to ignore, while others are putting forward serious proposals of undoubted potential value.

Most of those who declare to us their lost illusions, however, do not go on to tell us what the key to the present situation and its decisive structural elements are. Whether we like it or not, we are faced with a purely prospective exercise. What should our starting-point

be? What is the right time-scale? Are there not perhaps more fruitful intermediate positions between blind pragmatism concerning immediate matters and the "heuristics of totality"? What really interests us is what we "can do" in coming years rather than what we

ought to do. The analysis of the causality of the possible lies in our immediate circumstances and not in remote scenarios, much as these tempt the controlled combination of our intelligence and imagination.

III

The experience of the cold war

The last sentence in the preceding paragraph is of course enigmatic and vague. This is because it comes at the end of a process of exposition in which, without wishing to, we have intertwined various planes or dimensions of both concern and thinking solely because they were there before us: the supposed crisis of a type of civilization, the crisis of a particular society (the contemporary industrial society), the transformation or persistence of certain socio-economic systems (capitalism and communism in the historical manifestations of them so far experienced) and even the reference to the different styles of development, i.e., the prevailing one and the "other" proposed or possible styles. These are all questions which differ in the breadth or scope of their content. In addition, prospective interests of very different duration have slipped in, from the global ones stretching many years ahead, to others of a much narrower or limited visual angle. None of such questions is to be disdained in itself, and it is essential to envisage from the beginning a justified debate on the selection of particular points. For this reason we shall now try to specify exactly what our subject is. The aim is simply, in fact, to restate the conditions for world peace while at the same time continuing and modifying the

form of peace which has prevailed from the end of the war until now. Is there some decisive fact which points to a change and makes necessary a new view of the present interest? The thesis of this paper is that this is beyond doubt and that this change is in fact that which involves the transition from the structure crystallized *de facto* in the policies of the cold war to another whose features are for the moment unknown and which will necessarily be arrived at through the efforts of the policy of *détente*. But in addition, this situation brings with it a very clear intellectual obligation. What is the form of this historic change? What are its immediate consequences and the prospects for more distant ones? The view of affairs imposed by the obligatory acceptance of reality as it is and not as it should be calls for a prospective analysis covering a period which, while indefinite, must never be too long, because if it were it would involve a complete transformation of the data now in our possession. Does the adoption of this approach imply forgetting or denying the others referred to? Certainly not, but another element in this thesis is that most of these tasks, both in their formulation and the possible manner of realizing them, are necessarily conditioned by or dependent on the results of

the immediate intellectual and political effort to set afoot in a definitive manner the détente already begun or at least assumed. The aim, therefore, as in every scheme of prospective sociology, is to give the onlookers or minor protagonists in the matter a clear idea of what we "can do" rather than what we should do (Klages). What is within our reach in the situation of possible change which is developing? The idea of détente is for many of us a matter of fear, of antagonism and criticism: it must be acknowledged right away that it could hardly be otherwise and that such attitudes are determined mainly by the facts to which they object. But it is the duty of the intellect to free itself as far as possible from these restrictive factors and to submit the problematical situation in which we are all participating to the examination of critical reason—scientific reason, if you prefer. We must at least know what is happening to us, even though the conclusions may remain open to public debate.

The so-called "cold war" has been an experience we have all personally experienced, whereas détente is just a possibility. We must go slowly in some areas because in each case the instruments which are actually used or are most desirable are very different. What did the "cold war" consist of as a sociological phenomenon? What form has been assumed by its structure and by the modes and repercussions of its functioning? What has its historical formation been?

It is not possible, at the present moment, to attempt a detailed consideration of its origins and developments.

This is a controversial point of historical research to which, for its proper execution, we would need to devote many pages which are not necessary for our present purposes. The accent of the interpretation would therefore naturally vary in accordance with the sources used. As a matter of imputation—who was responsible for taking the first steps—the presentation of the facts is blurred by perfectly natural justifications of one's own innocence and of the guilt of the other side. Perhaps history will establish the truth one day. For the moment, however, our most accessible sources, which are those concerning the West, tell us for example that Roosevelt believed for a long time that his good intentions were shared by the other side and that it was therefore not necessary to renovate the traditional policy of equilibrium. It is impossible to presume what the other side really believed: all that we know is that it was something else. Now, such a transfer of responsibility does not in any way affect the internal logic of the historical process, and it should therefore be placed between parentheses in provisional form. The internal legality of the way events develop naturally led from Yalta to a confrontation between the powerful forces which had been thrown together as allies and were now reacting to the power vacuums and vacuums of influence which were emerging everywhere. The tension and the consequent confrontation had to take place, quite apart from what everyone's intentions might be, as an inevitable result of the power relations in play, and this is sufficient for us from a sociological point of view.

Structural notes

From this point of view it is only possible to trace in their broad outlines some of the most characteristic features of this strange form of general coexistence which covered a period of approximately 20 years, from 1948 to 1968: the clarity with which it was perceived by both sides, the common silence on the significance of the perils of "total war", the inflexibility of the systems of ideas on which it was based, and the tremendous paradox of its economic consequences, which took the form of growth that was received with the greatest enthusiasm.

Thus, the way the cold war fitted together is a phenomenon which is easily visible and can be grasped with the greatest clarity. And the same is true both for the main protagonists and for the third parties involved. A situation arose in which, just as in the lasting social stratification of the *Ancien Régime*, everybody was perfectly conscious of the place he should and in fact did occupy. All the forms of internal or external, national and international conduct only exist and can be understood as obvious in the light of the inevitably present antagonism. This is so up to the point that when in certain years some countries define themselves as non-aligned, they do not need to declare the meaning of this nor ask what it means to abandon the ranks. The clear, sharp confrontation between the two superpowers brought with it a similar clarity or absence of doubt in the positions of allies and satellites, although sometimes among the latter there were those who were neither beloved nor sought. For this reason, it is necessary to bear clearly in mind the lineal expression of the profiles of the socio-political structure of the cold war in order to

understand immediately the confusion produced when attempts to eliminate it or diminish it lead to the introduction of shades of colour in the depiction of its features. It is precisely these shades of colour that some circles deplore at the present moment.

In contrast with this almost diaphanous clarity regarding the fundamental assumptions about the peaceful coexistence thus initiated, there was an obscure awareness on the part of the beneficiaries of this peace both of its geographical limits and of its nature, which is really fragmentary and partial. In other words, there is an awareness of the fact that the indivisible nature of peace, which should cover the whole of mankind together, has been forgotten. It is a regrettable fact that human beings have always failed to heed the religious instructions to love their neighbour and have only regarded their "neighbour" in the strict sense of the very few members of their own more or less extensive group. It is also a fact that those who have been actual victims or surviving witnesses of past disasters subsequently tend to be relatively insensible to the troubles of others, especially when the latter are far away. It is just as true that there is a generalized and obvious moral insensibility, however. Scarcely any attention has been paid during the years of this peace generated by the cold war to the millions of human beings killed or harmed in the many "localized" conflicts or numbered among the victims of famines or other natural disasters. The experts know the approximate or exact figures involved, however, and when these are taken up and recalled by the spiritual authorities of our times—the philosophers or scientists—it is with the morally inexorable intention of rousing

the conscience of so many of us who are insensitive to the universal demands of a peace which can only be acceptable if it is full and indivisible. At a time when, through the first glimpses of détente, the organizational demands associated with a new peace are arising again for all of us, it is essential for the effective achievement of such peace to revive the permanent awareness that the peace sought for and desired can only be conceived as a single whole which is indivisible in its geographical extension and in its, so to speak, sectoral components: those corresponding to the political, economic and social aspects.

It is obvious that the second feature in the structure of the peace thus maintained by the tensions of the "cold war" scarcely calls for more detailed consideration, since it is so well-known that it is familiar to everyone. The fact that it has thus become just another subject of conversation is not without dangerous consequences, however. It is well known that the peace brought about through the cold war has led in its extreme manifestations to the classic apothegm *si vis pacem para bellum*, since it has consisted of the attempt—naturally altered and renovated in its progress—to reach an always fragile balance through threats so serious and terrifying that they raise the fear of one's own annihilation, or rather, that of mutual destruction through the use of nuclear arms by the contending parties. The radius of the zones of inevitable death is undoubtedly superior to anything ever previously recorded in the history of warfare and it would appear that it can be measured with some exactness. It is these terrifying figures which have made it possible to speak of a holocaust for the whole of mankind in the strictest sense of the word. Man thus appears as the only being who has conceived and is

now facing the suicide of his own species. As we have seen, persuasion by fear is the only means of continuing to induce him to preserve life. The topic referred to above is none other than that of the confidence aroused by this common perception of inexorable suicide. Up to what point can the pressure of such a limit situation work in any case? Even if it were feasible, such a digression would be beyond the scope of our intentions.

The fact is that the two superpowers—at any rate before the relative proliferation of nuclear weapons began—have so far been seeking, through the continually changing interplay of military parity, the balance that will ensure their own continuity and with this that of all their allies and satellites. But the confidence based on mutual military dissuasion through the terrible armaments available is purely technological and it has apparently silenced or pushed into the background the greater peril through which present-day man has passed and continues to pass: a peril which is not technological but psycho-social and in the final analysis a question of moral conscience. What it has been possible to avoid facing up to is the sociological menace of total war based on beliefs and not on types of armaments. Let us recall a brief typology in order to understand better the sense of these assertions. Thus, the fact which enables us to distinguish between the different types of struggles and conflicts which are apparently endemic among mankind is the limitation to which each one is subject from the very beginning. The old man-to-man combat, however violent it might be and however great the possibilities of death in it, had prescribed limits which were respected by all. Similarly, the inevitable violence of the dynastic and national wars which were typical of

the 18th and 19th centuries also had natural limits because of the recognition by the combatants of their own interests. It was not desirable to destroy the chances of continuation of a certain dynasty, nor was there any point for anyone in destroying the economic potential of the loser. For this reason, these wars were limited from the very start. In contrast, the so-called total conflicts are essentially unlimited. In struggles of this type the enemy is the incarnation of an absolute evil which must be completely extirpated. There can be no tolerance in his respect, and the destructive means used is unlimited until the "total" elimination of the enemy is achieved. In the history of the West, the most terrifying examples of this have been provided by the civil and religious wars.

But this same example of the religious wars which devastated Europe with arms which would be considered very primitive from today's point of view provides a hopeful path for overcoming this type of antagonism, since the time came when tolerance became established, even though at the beginning it was only through the pragmatic and not very convincing principle of *cujus regio, ejus religio*. Eventually, however, this tolerance as a spiritual disposition became generally accepted as one of the fundamental human rights: that of freedom of conscience recognized by all liberally inspired political constitutions. But perhaps side by side with this same secularization the opposing religious ideas were converted into ideological conflicts whose violent totalitarian confrontation has culminated in the present times in an insurmountable conflict between economic and social systems, which are purely terrestrial forms of organizing society. Although this absolute confrontation seems less

justified than its religious counterpart, since it contains no transcendental reference to salvation, the conflicts have not been any the less intense in our recent experience. Their nature of radical antagonism has prompted some philosophers of the history of our times to speak of the "civil war" unleashed in the West, because of its influence on the whole world. Such an ideological struggle appeared to be gradually giving way, up to the point that some hastened to proclaim the death of ideologies, although in fact these continued in vigorous life. What is important here, however, is that this ideological conflict constituted the most dangerous background, because of its moral character, for the confrontation between the naked power relations of the two superpowers—and of all the other countries—which is still the greatest difficulty even now that the process of *détente* appears to be starting.

This explains the fact that there has appeared among present-day writers the strange idea that *détente* can only be achieved when the military parity is accompanied by ideological parity. This formula is the result of analogical suggestion, of course, but as it is unintelligible in itself it brings out the uncertainty of the moment. It can be interpreted literally as a flatly inadmissible comparison. Parity in strategic or conventional armaments is something that can be calculated and kept in proportion both during a phase of increase and in one of decrease (disarmament), but it is incomprehensible to transfer this calculation to the field of ideas and to impose on them a proportionate limitation. No doubt this strange formula aims to declare something definite. Perhaps it is to be understood as the manner in which the old idea of tolerance returns once again in the present circumstances in new

clothing. It can also be interpreted as the renunciation, in a situation of parity, of the absolute and exclusive value of ideologies. At all events, the awareness of the mortal peril of radical ideological antagonisms shows a state of mind which is as healthy as it is timely, since neither tolerance nor the renunciation of any pretence of the absolute value of a doctrine signify the suppression of ideas or the permanent conflict which always accompanies their mutual presence. They do, however, signify a positive step in the selection of a morality of responsibility instead of a morality of conviction—to use Weberian terms—and of the corresponding policies. Never has it been so necessary as in our present complex world to follow a policy of responsibility which, instead of yielding blindly to an idea, value or doctrine, is capable of acting lucidly and measuring the immediate, secondary and relatively distant consequences of all actions and, while not pretending to make the largest number of people possible happy—in keeping with the now forgotten arithmetic—nevertheless tries to avoid, within the limits of its possibilities, the misfortune, misery and unhappiness of human beings.

The strategies of the cold war have avoided the final disaster of nuclear confrontation and have certainly avoided, without expressly setting out to do so, the moral degradation and complete depravation of human beings—even more serious than their physical destruction—that would occur in the agony of an ethically unlimited total conflict. In the years which have gone by, however, they have not prevented

the repeated misfortunes of local wars which were already referred to when we were talking about the concept of indivisible peace. There is no need to make any excuses for this repetition since although some of these military conflicts originated in old unsolved historical disputes, others were waged tacitly on behalf of another power or arose through the contagion and copying of the struggles between the big powers, that is to say, as a result of the very structure of the cold war itself, as we shall see later. Quite apart from the human losses involved, these local wars several times forced the great powers to the brink of a breakdown of the sought-for coexistence, and above all they caused the countries involved, most of which were by no means rich, to waste on war materials the scanty resources which they should have used to keep the heads of their inhabitants above water by covering their most basic needs. It is scarcely necessary to repeat that these needs could have been satisfied several times over with only part of the resources spent each year by the powerful countries in their arms race.

It will therefore come as a surprise to nobody that there are few indeed who can accept today even as moderately satisfactory the peace which has reigned in the period dominated by the cold war. Quite apart from its basically unstable structure, the benefits obtained and the evils avoided scarcely compensate for the innumerable negative consequences which the human race as a whole still has to bear. Both the prophets of doom and the sincere utopian believers in good will continue to be justified for the moment.

The ideological pillars

At this point it is desirable to return to our path in order to bring out as briefly as possible another of the features of the structure of the cold war. Once again, this has to do with ideologies, and it may sometimes seem difficult to distinguish it from what has just been said, but in reality it concerns a different aspect, or at least a variation in the approach.

It is common nowadays among Dutch sociologists to use a term which originally grew up in the study of the political parties of that country and of their institutional assumptions. As the very special system of those parties—and of the social structures on which they are based—retained for many years a solid consistency immune to every attempt by the people to modify it, it was suggested by way of explanation of this phenomenon that it had been subject to a process of “pillarization”, and this term was subsequently extended to any other social phenomenon which, for some reason or other, showed a similar petrified state of its structures. Such a fixity was in some ways invulnerable, but the sociologists in question did not have sufficient time to wait for the moment when, like the famous towers of Italy, they would give up to their great regret.

Although it is tempting to adopt this term because of its vivid descriptive value, the use of this neologism raises such syntactical and typographical difficulties that a determined rejection of it is indicated. This rejection, however, does not affect its content and the vividness of the reality which it tries to represent, since at the present moment the new feature of the sociological structure of the cold war to which we have just referred consists

essentially of a process of rigidity to which both the institutions and the ideologies of the two main protagonists in the confrontation have been submitted.

A detailed analysis of this process of rigidity should simultaneously cover both social phenomena—i.e., the institutions and the ideologies—in order to determine for any given moment whether there were or not parallel tendencies and what the degree of reciprocity was. As it does not at present seem possible to make this type of analysis, it would appear to be preferable to consider only the ideology, since its configuration is more easily perceptible. This is not, however, a critical study of the ideology itself, in which it would be possible to follow the line that its fixation is in keeping with its own logic: with the absence, for example, of an “intermediate stratum of experiences” (Freyer) in the development of its argument. What is most important for our present subject is the determination of the most simple or elementary extrinsic factors on which the ideological fixation in the tensions of the cold war depends. It can thus be sustained—with obvious simplification—that the ideological rigidity in question is due just as much to factors of external policy as to those of domestic policy.

The demands for fixation in the external policy relations seem to be very obvious, since the ideology is the indispensable banner under which the power displaying it carries out its attacks or defends itself. The symbolic elements involved in it must be traced in very broad outline, since any concession of shades and nuances would make identification impossible. Thus, the term “red”

has in different cases covered a very wide range of political positions. Moreover, this ideological rigidity in doctrine and its symbols strives to limit the possibilities of choices very narrowly. Anyone who has not made in time the right choice is described as imperialist, although this may actually be something very far from the mind of the person in question. The ideological fixation or inflexibility in the field of domestic policy is naturally connected with the demands of legitimacy. This does not, however, pretend to suggest that every "political doctrine" —in Mosca's sense— is necessarily an ideology or a myth, nor that every legitimizing justification must also necessarily be rigid and inflexible. But in a case of tense confrontation like that of the cold war, ideological fixation is inevitable because in its positive doctrine of legitimation for domestic ends it includes in a kind of negative foreshortening the legitimizing doctrine of the enemy. It includes, therefore, all the fundamental exclusions: that is to say, the doctrine does not leave any loopholes at all that can be used by the opponent. The permanent negating presence of the opposing doctrine is what determines the rigidity of content of the assumptions of its own legitimacy.

The fact that ideologies put themselves forward as immovable pillars around which all external or internal policy must revolve has effects which are paradoxical in their double tendency, as in every similar process in social life. On the one hand, as happens in every fixation, there is the incapacity to adapt to certain alterations which actually take place in society or, even more serious, the incapacity to seek any timely "innovation". On the other hand, the ideological rigidity serves at the same time as a blanket covering up the

changes made and the possibilities of understanding them. Examples of this abound in recent years. But the most significant case on the whole lies in the famous argument about the supposed convergence between the opposed political and social systems, since the demands of legitimacy oblige both parties —although more vehemently in the case of one of them— to reject this discovery by certain circles of academics or intellectuals. These analyses of strict scientific data or of justified historical and philosophical considerations shattered, from within the ideology itself, its irrenunciabile legitimizing function.

Present-day internationalists frequently talk about the "messianism" of the superpowers. In the present atmosphere of secularization this term is not appropriate for designating the expansive impulse of these powers, but with some caution it would be possible to talk of their "missionary" attitude. The ideologies expound their respective missions, which it is not necessary to describe as they are very well known. Caution is called for, however, because sometimes indoctrination is not the result of the mission but is a sought-for instrument of bargaining-power. This is due to the intrinsic sociological structure of the cold war, because during its existence conflicts involving all types of specific policies have taken place as a function of the dominant ideologies. In these circumstances, military, political and especially economic support can only be obtained by ideological conformity, sometimes under the disguise of conversion. These facts are of the greatest importance to all those who ask, looking into the future, what will occur once *détente* has become stabilized or possibly even at the beginning of it. We will go into this later, but even before arriving at this stage the structure of the

cold war has already begun to display signs of its own exhaustion, which is the natural price of the rigidities already referred to. The gap between the pretensions of the ideology and the reality actually experienced has been perceived through a painful awareness of hypocrisy. It is this awareness of voluntary

falsification which lies at the root of the recent protest movements—whether or not by young people—and of the ill-designated “countercultures”. Moreover, it would not be out of place to recall that in the meantime the powerful heterodoxy of the Chinese revolution has also taken place.

The irony of the “Belle Epòque”

By an ironical paradox of history—or quirk of Reason—the years of greatest difficulties and upheaval in the maintenance of the cold war have witnessed outstanding material enrichment, and not only in the so-called industrial countries. The reformed type of capitalism known as “neocapitalism” is flourishing in a manner which could not ever have been suspected by even the most optimistic at the time of the crisis—which was simultaneously a reality and a legend—of 1929. Moreover, socialism too, giving the lie to all the forecasts of failure to which it was condemned in advance because of its absence of calculability, can point to comparable successes. Both market economies and centrally planned economies show clear positive achievements which justify their declared emulation. On the side of the West there has been talk—no one knows with what degree of piercing irony—of a Belle Epòque comparable to the few similar eras which preceded it. Of course, this is a Belle Epòque which has been fully enjoyed only by a few, but nevertheless it has had positive aspects for others too who were more or less benefited by it. Nothing has been said of an era of this type on the Eastern side, although this would have perhaps been

justified if one took into account merely the economic results and left aside the psychological question of the enjoyment of living. On both sides, whether or not fully aware of the facts, the people seem to be living quite happily the same paradox of enormous development in the shadow of catastrophe. This has not been paradise in the shadow of the swords, but nevertheless until a short time ago it was something which was very close to it.

It is in no way surprising that the magic term which spread everywhere like some “open sesame” of the moment was precisely that of development, although in its initial ambiguity it was confused with the concept of pure economic growth. Neither of these conceptual ideas, however, was really a historical novelty in itself.

The idea of development in its broadest sense was in a direct line of descent from the faith in progress which all the Euro-American peoples have shared since the Enlightenment. This idea is preserved almost intact in its oldest formula in one of the superpowers—the last great country which believes in the Enlightenment, it has been said—but even in the other superpowers it main-

tains similar dynamism through the complicated path of the German idealism which, in its last great Hegelian backwater, inspired the works of Marx in spite of the contradictions it contained.

The idea of growth is also dealt with directly or indirectly by all the figures of the classical school of economics, and this must be linked up —as it continues to be in some surprising aspects— with its consideration as a separate subject by subsequent economists. It is evident to all that as an economic idea it forms an integral part of the spirit of the Enlightenment and of its conception of progress. The special feature of the post-war period, however, is on the one hand the return to the idea of progress when the faith which had supported this had already been exhausted on almost all sides, either because of philosophical or moral disillusionment or because, as has been claimed in a convincing manner, the content of the aspirations or promises of that faith had already been completely fulfilled in the more specific contemporary historical circumstances. The future was thus viewed through the outlook of progress when it had already ceased to exist as a common and indisputable belief.

But on the other hand —and this is what is most important today— this same ambiguity in the idea of development is what enabled it to convert itself with the same force into an ideology within the two dominating systems. Only when we look back from the present can we discern what passed unnoticed at that time. This is a task which only present-day historians can fulfil in all its complicated aspects. There is the fact, for example, that the idea of development as an ideology connected with both the dominating systems seemed at the beginning to be a mere concept of growth. Those were the years

—as Myrdal points out somewhere— when the lay public was flooded with details of the competition to beat the figures for the production of copper or electricity, steel or cement, automobiles or radio and television sets, etc. These, then, were the years when the supreme indicator was that of the gross per capita product. This was an indicator which was sufficient and more than sufficient for any comparison, since it appeared to be capable, through its bare figures, of providing an interpretation of very different social phenomena. Only in the last few years has the validity of this almost absolute value begun to be doubted, as may be seen from the criticism of the obsession with production in general and the continuing effort to find the varied range of indicators needed for the analysis and understanding of real social life in all its complexity.

But be that as it may —the sense of a new critical awareness or the instrumental value of its means— the fact remains that the predominant use of the indicator in question shows the decisive significance of the growth aspiration as the major component in the idea of development sketched in the same ideological format by the supporters of the two declaredly opposed systems.

Apart from the riches obtained in the shadow of the nuclear menace, there is another decisive factor which is manifesting itself today in a generalized manner. Declared political goals on the one hand, with the effectiveness of the Marshall Plan and the promises of Point 4 technical assistance, and on the other the tangible results of the various plans which confirmed the forecasts of a new historical interpretation, gave rise on all sides to an awareness of development as a reality which could sooner or

later be achieved. This awareness put an end to the long-standing resignation to misery, sickness and early death, and all over the world the aspiration for development offered itself as an apparently irreversible *de facto* situation and a hope for a future which had previously scarcely been dreamed of.

This *de facto* situation is what has been called a "revolution of expectations", more profound in its realization than the transitory revolutions to which it gave rise and the efforts at appraisal and reform which it also generated. But with the "revolution of expectations" as a venturesome result, a still unfinished

period of historical impatience began: an impatience which, whether one likes it or not, wants to obtain rapidly what in other times and places was the result of centuries of a laborious conjunction of historical conditions rather than the effect of a sudden change in expectations. When, under the influence of the intense intellectual experiences of recent years, a book appeared with the impressive title of "L'Utopie ou la mort", its author, although pitiless in his warning to the rich, nevertheless felt that he must be quite prudent in his advice to the poor in their anxious situation of impatience.

Latin America as an example

There can perhaps be no better example than that of Latin America for the situation whose general lines and significance were described above. In recent years, Latin America has not had to go through any process of decolonization nor suffer the diluting impact of so-called europeanization. Unlike other parts of the world, Latin America offered no examples of political forms of rigid and anachronistic traditionalism nor systems of *Weltanschauung* as different and separate from the Western ones as those of some other age-old cultures. The fact that there were still certain racial differences did not mean that there remained any acute confrontations of a tribal nature anywhere in the region. All this is because for centuries Latin America has formed part of such a characteristic and clearly defined set of nations as the West. It can be and has been described from an economic viewpoint, or if you prefer, in some parts

from the point of view of a process of more or less rapid "acculturation". The fairest and most correct view, however, is the full historic view which gives equal weight to all aspects of life and culture. Within this, although it might be desired for some reason to put the era of the Viceroy in parentheses, so to speak, in cannot be forgotten that the series of events which gave rise to independence set in motion a number of infant nations whose governing minorities—despite the contradictions of social reality—were oriented by the political and economic ideas which were the common heritage at that time of all the countries with a European tradition. Or, to be still more precise, the set of events which gave rise to independence set the identical stamp of a certain liberal inspiration everywhere. It is neither necessary nor desirable to describe here the details of the history of a century of such inspiration and the advances and failures in the

various countries. This should, however, be briefly recalled before returning quickly to the years with which this paper is really interested.

At the time when the theme of development and its great promise was being taken up with some ceremony, various Latin American governments had already set afoot economic policies in that direction, at least from the time of the great turmoil of the first World War. This was a perfectly natural and understandable fact which is only noted here in order not to condemn to undeserved oblivion the politicians who, in the second half of the nineteenth century, laid the basis of the infrastructure—roads, railways, bridges, etc.—which still remains in an improved form in the majority of countries of the region. But it is not our purpose here to right the wrongs of repeated injustices. We are merely pointing this out in order to stress that the idea of development and of its various mechanisms did not suddenly drop from heaven and that it was already a domestic aspiration and political goal in many countries and their governments when even the most backward parts of Latin America were hit by the impact of the external stimulus of the developmentalist ideal launched by the “centres” themselves and by the international organizations which they established.

The declarations made in the richer countries, whether by officials or by influential intellectuals, revealed a clear and honest perception of scientifically comparable real conditions, although they were also prompted by another type of impulses: some deriving from a vague awareness which is no longer held, and others prompted by humanitarian tendencies stemming sometimes also from a selfish but dissembled perception of the crassest self-interest. Be that as it

may, the fact is that in the late 1940s there came together in Latin America both everything that was already being sought within the area and the great incitements coming from abroad. Latin America's real good fortune at that time was to have an international organization, run however by Latin Americans, which clearly stated with doctrinal coherence what had hitherto been perceived here and there, but only in a fragmentary and assuredly confused manner. This is not the place to relate the whole story over again, and in any case all those concerned certainly know it well. To sum up, what was no doubt already in existence in various groping studies was formulated by the Economic Commission for Latin America into the programme which was to prevail all over the region for many years: the well-defined project of so-called “substitution industrialization”, accompanied, as its technical support, by a set of hypotheses, some of which still maintain their validity despite the passage of time, although others today seem more open to discussion or to modification in the light of new experiences.

The CEPAL line seems to have maintained its sway throughout the whole region for two decades, either through its explicit acceptance or by virtue of internal criticism within CEPAL's own orbit which maintained it as a point of reference. With the passage of time, the criticisms have been of another type and, whether or not justified, some of them call for a brief halt by us in this study, not in order to enter into a doctrinal defence at this point, but merely to try to understand what has happened in the past. Nothing could be more natural and self-evident than that the development policies then recommended and undertaken were conceived within the prevailing economic “system”, which was

moreover "hegemonic" with respect to the region. What could be called the first generation had to undertake its development policy by formulating goals and constructing techniques to be carried out within the system that it had inherited, and it encountered strong resistance and opposition in this. It is also easy to understand its favourable inclination, more often than not unexpressed, towards the formulation of a kind of Welfare State, within the various possible forms available in the light of the realities which had to be faced. We are not referring only to imputations of an apocalyptic nature: other more discreet ones nevertheless run into equal limitations. It is many years since the interpretative theory of "economic styles" came into circulation in penetrating studies of European conditions, but this does not mean that it should be accepted unconditionally. Perhaps through forgetfulness or ignorance of its existence, new generations will, in the rapid passing of intellectual fashions, take up the concept of "styles of development" from a point of view just as obviously critical as it is full of constructive intentions. What the school of economic styles brought out—undoubtedly as a copy of the historical school in general—is that the "economic systems" with their typical styles are not abstract constructions set in motion one fine day, but concrete configurations of the historical process which are here visible and operating in all their imperious presence. It may be noted in passing that the so-called styles of development are no different. They are fragments of the historical reality which incarnates them, and they offer limited options at particular moments which can only with difficulty be overcome through the analytical construction of what appears to be possible. Although there is nothing against the interest of such intellectual

paradigms, they do not represent fixed and unobjectionable points from which to launch accusations of error against people who were within a particular style of development rather than another one in specific historical systems.

It is precisely now, as a consequence of historical changes whose forms and dimensions cannot yet be defined, that Latin America is once again in a critical situation and is therefore open to new expectations.

It appeared that the Alliance for Progress was bound to represent a decisive step in the development process begun in the post-war period in the whole region, and so it did to some extent. It represented the external impulse of greatest political weight among all the influences feeding the "revolution of expectations" in the region. But on the one hand it was nothing but a solemn formalization of the economic orientations current in the region a few years ago and already mentioned above, while on the other hand it is very likely that it came late on the scene and suffered from the negative aspect of its origin as a defensive reaction to the events in Cuba in 1962. Even so, the successes obtained through it would have been greater if action had been taken more rapidly and with more flexible administrative machinery than that set up at the time. This, however, was not the decisive feature of its lateness. At that time, the circumstances of international politics were benumbing the United States' interest in its neighbours to the south, who had ceased to be treated as a group in multilateral relations and had little by little come instead to be dealt with under traditional bilateral procedures. All this, however, does not mean that a balance sheet of its positive results is not called for.

It must be borne in mind, however, that during the 1950s and 1960s, quite apart from the results obtained in actual Latin American development, the whole region has been showing marked progress in the training of its economists, followed only a little behind by other specialists in social sciences, and particularly sociologists. These were years of vigorous intellectual effervescence which were bound to have perceptible consequences on critical attitudes.

No one denies that during the whole of this time Latin America kept up a sustained rate of growth which, although it varied from country to country and showed ups and downs, was nevertheless expansive on the whole. Taking the dominant indicator of the gross product, the advance made is very positive. The same is true of what happened in certain specific sectors, such as the industrial sector in particular, and it is also possible to point to progress of a social nature—above all in education and health—which is really quite satisfactory whatever the yardstick used.

Not everything is so satisfactory, however. The widespread use of expressions such as “dependent semi-development” shows the existence of harsh criticisms which we will not take

into account here. There are many who agree that the “system” has functioned at the cost of producing a marked “structural heterogeneity” both in the economic and social aspects. Others, following less extreme or heterodox lines, have stressed that the validity of some of the already classic hypotheses of CEPAL does not mean that the process can go on for ever without variations. Substitution industrialization, for example, seems to stagnate when it reaches a certain level, the biggest obstacle lying in external factors. This is a point which brings in, through the relative marginalization in the merchandise market and the financial field of investment, consideration of the newly-confirmed validity of the hypothesis of “external strangulation” and the realities of growing indebtedness. These points are well known to all and are only mentioned here because, coinciding as they do with the world crisis—that strange “stagflation”—Latin America is faced with the still problematic prospects of the assumed breakdown of the cold war, the probable results being different depending on the result of the détente which has been begun. This is the precise subject of these exploratory pages.

IV

From the cold war to détente

Conceptual elements

Détente, in the specific sense which is the subject of this paper, is by no means an enigma incomprehensible to present-day public opinion. Everyone knows in principle what it is about: that there

may be a relaxation of the power relations between the great powers which will reduce the strong tensions that exist between them, from which all the other countries suffer in turn to some extent.

It may be just a breathing space or the beginning of a prolonged period of common security. Over this general signification, however, there hangs like a symbolic misfortune the essential equivocity of the French word which is generally used here, since *détente*, which comes from the verb *détendre*, also originally meant the act of loosing the crossbow, an instrument of war. This original ambiguity, which gives a good idea of the contradictory attitudes aroused by the concrete possibility of *détente*, continues to affect the word in other forms right up to today. But there is no call for haste. On the contrary, it is advisable to carry on step by step with the examination of the various aspects displayed by the subject of *détente*, depending on whether it is considered as a *de facto* situation, as a process which is in progress, as an ultimate goal or purpose, or as an intellectual problem, that is to say, purely as a matter for study.

A *de facto* situation is created by its mere presence, by its emergence as a new phenomenon in present conditions which is within the experience of everyone, whatever their favourable or adverse prejudices may be. As in every matter of immediate topicality, however, the dangers involved in its treatment are very great. The biggest danger, as always, is that of lagging behind events, which confront us without leaving us a breathing space. The academic is rather scared of having to compete with the journalist, who is more accustomed to the task. But he cannot abide by the historian's warnings regarding lack of distance and perspective either, since it is not so much a question of something in the immediate past as something in the immediate future. Consequently, the other danger which accompanies the foregoing and even derives from it to

some extent is that of the emotional charge generated as a reaction to this phenomenon. Either sympathy or anxiety may be the dominant emotion: the good wishes extended to certain facts or the aversion to them because they are felt to be a possible threat to one's interests and convictions. Anyone who reads the daily papers can quickly accumulate many examples of both types. However, anyone who is only interested in principle in studying the matter must accept the only possible way, that of intellectual reflection with permanent awareness of the dangers which threaten, because it really is worth the trouble to try to form some clear ideas on a phenomenon which affects all of us equally, even though the effort may finally be a failure.

For this reason it is necessary first of all to stress energetically that *détente*, as an emerging presence in the present circumstances, is nothing more than that. It is a process which is on the move, but in no way is it a *de facto* situation with well-defined limits. It is therefore a movement which can succeed or fail and which calls for its study to be adapted to its nature as a form of transition towards something whose actual features are not yet clear to us and which may or may not coincide with our desires or dislikes. As long as the process lasts it cannot be anything but ambiguous, depending on the point of view from which it is approached. The fact is there, however, just like that of its apparent initiation.

What does *détente* signify as a goal, as the determining purpose of this movement, however? Which sense of *détente* obliges us, as its logical principle, to take it most seriously? Can we, as third persons, be mere indifferent onlookers or are we instead vitally interested participants in a common matter? There

is not the slightest doubt about the answers to these questions. The *détente* between two great powers of which we are not part interests us as participants because the common destiny depends on its results. What is involved historically is something more than the solution of a stalemate in such a way as to replace the exchange of threats with an exchange of mutually friendly gestures which is agreeable to look upon for a generously disinterested spectator. What is really involved is the passage from a type of peace which is basically unsatisfactory on account of its nature to another which is more universally convincing and durable. This transition consists of the replacement of the structure of peace based on the strategies of the cold war with a form of authentic co-operative coexistence which no one needs to enter with mental reservations. In brief, what is involved is the possible assertion of the suppositions underlying this new organization of peace of which we spoke at the beginning of this paper: an organization which is really universal and in which no country feels itself to be a prisoner of forced unilateral dependence, while no country is in a position either to use such dependence voluntarily to serve its own particular interests. This is a peace which goes beyond mutual and general fear of nuclear catastrophe and involves co-operation and common tasks which in more than one case also involve facing threats which, though distant, are nonetheless perilous for the whole of mankind.

It would be bordering on utopianism if we were to think of immediately dispensing with the realistic consideration of power relations, which are an inevitable necessity for a long time to come, or if we were to believe that the "world authorities" required in various fields of activity can be set up rapidly

and completely within a short space of time. What all those who are interested in and familiar with the matter ask for is simply the achievement of a "minimum model" of peace adequate for the problems of our times. But even such an incomplete model would still demand prolonged and patient effort in order to bring it to fruition. Nothing gives a better idea of what is demanded by the objective of *détente* than the fact that the gradual replacement of the structure of the cold war with another more stable system is not just a question of a new organization of peace in its general lines, but a question of the conditions of possibility of what has been proposed almost unanimously in the various projects on a "new international economic order". Since such an order is inconceivable as an isolated and dependent step, this gives the current proposal an indisputable utopian flavour. How could a new monetary system work, for example, if, as up to the present, the Socialist powers played no part in its operation? The same doubts apply to the realization of each and every one of the agreements which an intellectual analysis shows to be absolutely indispensable. How is it possible to organize, without general co-operation, a world authority to deal with the problem of food or the orientation of science and technology for the service of all; how is it possible to achieve stabilization of the trade in the various commodities to the mutual benefit of rich and poor countries, or the just distribution of the burdens of financial assistance, or the joint exploitation of the sea bed, etc.? These and other problems require, as an essential precondition for any attempt at their solution, the prior existence of a world-wide system of organization of peace which includes a toned-down or at least a

reciprocally moderated form of the naked power relations which still operate in accordance with the laws of the jungle on the international scene.

After these rapid and almost glancing references to the various aspects raised by détente, all that remains is for us to view it as an intellectual problem, as a straightforward subject of study. As such, it has the indefinite character of a process which has known origins but is limitlessly open as far as its termination and completion are concerned; moreover, it is a phenomenon whose perceptible reality is immediate and is therefore in intimate contact with us. In this double guise it calls for our interest in different ways and gives rise to methodological reflections, which will not however be gone into here. In its character of a process which is open to an unknown future it belongs to what used to be called a few years ago futurological research or, more modestly, in accordance with more recent trends, prospective studies. The reason for such changes in terminology goes deeper than just a passing semantic preference and it would be interesting to go deeper into its analysis at another time. For the present, it is sufficient to know that to many people futurology appears suspect either because its subject, as far as the pure future is concerned, does not exist as such, thus giving its title an excessively pretentious air, or because according to other people what appears to be a very new science is nothing but a return to what was always in fact the philosophy of history.

The title of prospective studies thus appears as more moderate and circumscribed, although the subject is the same. Be that as it may, détente as an intellectual problem is included without the slightest doubt in concern about the future, which is intrinsically uncertain.

On the other hand, however, it is so rooted in the present that its possible tendencies are predictable by simply prolonging some distance ahead what is already known. Here, there is a difference in the time horizon which determines a particular methodological position. It is not possible to go into this in greater detail at the moment, but it may be noted that its long-term nature is a characteristic of any futurological research, as is shown by all contemporary studies made by the most varied techniques; this extended time dimension is considerably cut down, however, in the prospective studies which use the instrument of the construction of scenarios, especially in keeping with their sought-for or pretended degree of historical saturation. When, as in the case of détente, its open process has to pass from unlimited nature in principle to what is in fact a limited space of time if it is not to be deprived of any possibility of success in its aims—since if it is not achieved within a reasonable length of time it loses its significance—its prospective analysis also has to be carried out in the light of a length of time which is of course unforeseeable but is nevertheless relatively short. As in the case of the historically saturated scenarios, what is involved is a future which is fairly close, although not immediate. This is at once the attraction and the difficulty of this type of study.

Another characteristic of futurological studies which is usually effectively complied with is their global nature. The universe dealt with in them is the real universe of the whole world. In keeping with this requirement, the prospective study of détente would also have to be global and would also have to consider the effects of détente on the largest possible number of countries of

the world. The study proposed in this paper, however, is only fragmentary because it focusses its interest on Latin America. Pragmatic reasons make this necessary, although supplementary elements may be added later. In spite of this reduction in scope, however, it is a task which goes beyond the capacity of a single person—not only is it necessary to keep up with a copious bibliography but also to follow day by day the growing journalistic disputes over events—and can therefore only be carried out by a well-equipped multi-disciplinary team. For the moment, we will content ourselves with the provisional tracing of a few fundamental lines.

By way of tailpiece to the above notes it seems that some reference should now be made to a question which, in other circumstances, would warrant a whole chapter. This question is not so important in itself at this moment, however, nor can it be answered here in a satisfactory manner. It would involve specifying how détente has been generated and noting if there are any phases of special interest in that progress. Just as in the case of the cold war in itself, however, this story is still to be written by competent specialists. There does not yet seem to be sufficient agreement among them on this point, and the papers which some of them are taking out of their archives give different dates for the beginning of détente. The

only consensus on this point is that this process of détente began before the agreement on principles solemnly signed by Nixon and Brezhnev. Furthermore, the stages that would have to be gone over also include the ups and downs in the progress of the agreement on the limitation of strategic arms (SALT I which is now over and SALT II which is still pending), and these, because of their complicated technical nature, are beyond even the best-intentioned efforts of the layman in these matters.

In the following pages we will have to limit ourselves to designing three different types of questions of very different interest. The first group refers to the strict power relations during and after détente, which are of particular importance not only to politicians but also to professional internationalists. The other two groups are of more general sociological interest and refer to the consequences of détente in various fields and to the various scenarios that its possible forms may assume. It should be noted immediately that in both cases the writer has had to abide by and use the plausible assumptions and reasonable arguments—which therefore can be falsified in proving them—that may be found more or less precisely and clearly in the contemporary bibliography of books and periodicals available to any interested person.

Power relations in the era of détente

When following up some of the analyses which exist regarding the effective power relations during the process of détente or its assumed achievement, it is necessary

to be on the watch for a double error which frequently creeps in. On the one hand, there is the belief that détente can put an immediate end to the hitherto

existing politico-military power confrontations. On the other hand, there is the tendency to equate economic power with political power in the strict sense, that is to say, in the sense of constituting an autonomous decision-making centre in the international field. The content which is logically implicit in the movement of détente is assumed to go beyond a mere advance in nuclear disarmament and in the expansion of trade or other exchanges between the superpowers, but this objective, which is what interests all the others and is therefore applauded by them, is still far from showing signs of becoming a reality. It would therefore be necessary to add to the double potential error already mentioned the error which would result from a premature transposition of the desirable to the actually existing.

For years now, the fact that some minor countries have opted for or rather have declared in favour of a policy of rejecting any affiliation—a policy of non-alignment simply tolerated as inoffensive even when it was carried on as a rather crafty little game designed to further certain national interests—has lent credence to the belief that the so-called bipolar relationship has disappeared or is on the way to doing so. The strengthening of the power of other countries—particularly the economic power—also seemed to confirm, through the appearance of these other centres, the theory that the bipolar relationship was being replaced by another more complicated one. At the present time the announcements of détente—especially in view of the presence of the new China—are also interpreted by some as further indications of the dissolution of the previous historic bipolar axis. The analogy with certain moments in the past also gives grounds for thinking that there is a possibility that a new era of

balance of power might arise, comparable to that imposed in Europe as a result of the Holy Alliance, which lasted almost intact until the First World War. Both these things are problematic, however. It is indeed doubtful whether the bipolar relationship, as the foundation of the balanced structure of the cold war, has disappeared or shows any immediate signs of doing so. Neither the existence of other nations with limited nuclear potential nor the emergence of Chinese power have altered the basic fact that the extreme capacity of dissuasion continues to be in the hands of the same two superpowers. Even the existence of the famous triangle of the United States, the Soviet Union and China reaffirms the original bipolarity, since all the relationships possible within it fundamentally exist only with reference to one or the other of the two superpowers. The assumed disappearance of the bipolar relationship will consequently be doubtful if not impossible for a long time to come.

Nor does it seem conceivable that, in the creation of new power relationships, it would be possible to form a power structure like the European one, made up throughout the history of that continent by half a dozen clearly defined powers. What are the powers which, in a known number and form, could make up in the next few years a balance of power similar to the peace arranged by Metternich? Here confusion arises between political and military power and economic power, this confusion being particularly obvious, for example, in the repeated references to the European Community. This Community is an undeniable centre of radiation of the economic power which it possesses but it is not yet a political community—it is not known when it will become such a

community— and much less is it a making organs in the field of international politics.
community with its own decision-

The consequences of détente

Alongside the assertion —which could be sustained up to a certain point— that the dominant bipolar relationship of decisive power is supposed to have disappeared, there are other assumptions of objective possibilities which circulate with various degrees of certainty.

One of these is the supposed “deglobalization” of the political attitudes and positions of the hitherto antagonistic great powers. What is meant by this not particularly felicitous term is the loss of interest of each of these in being present in all parts of the earth —regardless of whether they are conflictive or not— where its hegemonistic pretensions of one kind or another may be affected. The plausibility of the argument runs along two different lines. One refers to the role of world policeman which one or other of the powers might take upon themselves, although in fact only one of them seems to have played this part, or to have been accused of playing it. In any case, this role appears to have become vacant due to its abandonment by that country, and there are no candidates —and perhaps never will be— for filling the vacancy thus left. In reality, intervention on the grounds of global interest was always limited in its literal sense by reasons of political prudence, that is to say, by the mutual granting of greater or larger areas of non-intervention. The validity of this argument lies in the reasons favourable to the continuation of these attitudes of moderation once the policy of détente

continues more or less seriously, in spite of its ups and downs.

The theme of the supposed “deglobalization” can also be reached by another more indirect path: one which once again leads us to the already mentioned question of the renunciation by the great powers of their missionary attitude —some would say their messianic attitude— towards the other countries. The hypothesis thus brought into consideration would have to be formulated in this way: the abandonment of a measure of a global nature by the superpowers will bring with it a parallel abandonment of the superpowers’ interest in imposing on the other countries their own conception of the world and of life. The question is by no means simple, and it cannot be denied that it is still a very thorny matter in some respects. The more or less rapid succession of hegemonic powers has always brought about the radiation of the powers’ own cultures —their usages, ideas and literary creations— through their political sway, and in this sense the decline of one of the powers could be measured by the slow or rapid disappearance of its spiritual influence.

This does not mean, however, that the small countries have ever been condemned to permanent obscurity as regards their own values: the Scandinavian countries, for example, did not need to rise to the pinnacle of political power in order to secure the universal diffusion of Ibsen, Strindberg or Kierkegaard. Nor

is it necessarily true that the undeniable cultural influence which accompanies the triumph of power has always been something deliberately sought and pursued. On the other hand, it cannot be forgotten that the propagation of a doctrine—whether deliberately or by the mere fact of its presence—is subject to the tendencies to fatigue and tiredness which are well known and clearly formulated by students of modern propaganda techniques. The effects of a sustained missionary indoctrination campaign by a great power are subject to the same law, not only in other countries, as passive objects of the action, but also in the active centre itself. Consequently, the abandonment of a militant missionary position by one or other of the superpowers may have nothing to do with the abandonment of their policies in the global framework. Careful analysis of some present phenomena—both inside and outside the great powers—would perhaps confirm the principle of fatigue with visions of the world which have begun to cloy through repetition.

The delicacy of this subject at present is due, however, to other reasons which only arise when the defence of a particular conception of the world implies the radical negation of another conception considered to be the absolute enemy and to be totally unworthy of acceptance or respect. This case was already referred to earlier when we mentioned the necessarily annihilatory

nature of total conflicts, which are latent in the most decisive contemporary antagonism. But historical experience and the awareness of the disastrous moral results of such antagonism—the awareness of the senselessness of absolute confrontation—may break down, as at the end of the wars of religion, both the affirmative and negative attitudes. It is possible that something similar is occurring in our own days, particularly where the doctrinal confrontation includes technical problems which are suitable subjects for a dispassionate examination.

The moment which is recognized as being most critical and difficult in the achievement of *détente*, however, is that which involves linking a doctrine with a principle of legitimacy. Its complete abandonment—perhaps the position would not be so 'serious in the case of partial or fragmentary abandonment—would be equivalent to the destruction of that principle. If this fact, which is very well known, is recognized then it is difficult to speculate about possibilities. The prospective analyses required at this point must be very specific and must be followed up step by step and almost day by day, without denying in advance a certain horizon of flexibility, in view of the great variety of objective possibilities offered by the maintenance of a conservative position capable of maintaining forms in the midst of important changes of facts.

Regionalization

Internationalists who consider deglobalization as one of the consequences of

détente see as the other face of the medal the tendency towards concentra-

tion through regionalization. This assumed regionalization is open to question, however, both as regards its possibility and as regards its significance, that is to say, in both ways. Let us begin by recalling that the suspicion that the present superpowers may lose their universal view is in itself doubtful or problematic. Indeed, what is happening is rather the contrary, and because of the increasing interdependence of the world this (globalizing) view is not only bound to continue in the positions of the great powers but will also obligatorily spread, as a condition of survival, to all the other countries, whether great or small. No one can avoid having to acknowledge that –to paraphrase the classical saying– no man is an island. Secondly, regionalization is not a novelty which may be encouraged by the abandonment by the other views, but a reality which already exists in the obvious presence of various blocs. There are of course blocs of a politico-military nature, like those already referred to, but there are also those of an economic nature which do not coincide fully with the others. At present, in addition to the Soviet-dominated socialist bloc (leaving aside for the moment China, which is also socialist) there is the bloc of industrial market-economy societies which is just as clearly defined. This brings us back to the tendency already noted to confuse or identify with each other the different forms of power in the strictly political and economic aspects. Thus, if the decisive triangle in the pure power relationship is that made up of the United States, the Soviet Union and China, the bloc based on economic trade relations among the great neocapitalist centres is also of a triangular nature, with the first-named country at one of the apexes while the others consist of

the European Economic Community and Japan.

For some countries, particularly those of Latin America, it is above all this triangle which dominates their scene from the economic point of view. How long and to what extent will these blocs and their powerful influence last? The answer to this is one of the most important points in any prospective analysis at present. There is, however, an evident fact which can be brought out in advance, namely, the significance that the assumed regionalization could have as a result of the postulated *détente*. This is so because the persistence of these and other blocs and the regional fixing of interests and influences contradict or nullify the aims of the new forms of organization of peace as the nucleus of the hopes which all of us place in the effective realization of *détente*. Nobody could possibly believe that in the initial period of the process the blocs of the two types which dominate today and their respective hegemonic pretensions will melt away as if by magic, but the really worthwhile success of *détente* lies precisely, in the final analysis, in the mutual limitation of such pretensions so as to improve the manoeuvring capacity of all the other countries.

There therefore seems to be no need to stress what the assumed regionalization would involve. In its aspects of politico-military power it would bring with it the inevitable monolithic consolidation of the unfortunate zones of influence, without any possibility of escape. Within these zones, as internationalists point out, there would be a fixing of the various webs of domination which stretch out from the immediate neighbouring security cordon –the glacis of the fortress– and cover to various extents the territories extending up to

the frontiers of the other zones. In its economic aspects, the persistence of blocs—whose favourable or unfavourable influence cannot be ignored and must be examined in each case with the greatest objectivity—would involve the persistence also of the traditional obstacles to the diversification of trade, together with the continued deterioration of the international market in which all countries participate, regardless of whether they are great or small, socialist or capitalist.

In order to conclude this section aimed at situating in its proper place the play of power relations during the attempt to bring about détente, there remain two questions which particularly occupy the attention of specialists but which, without denying their importance, are only of secondary interest for the purposes of this paper. I mean, of course, that their detailed consideration is of secondary interest. One of them arises from the following question: which are the powers that benefit from the present circumstances, and what, therefore, is their situation in the immediate future? The reply usually gives three main beneficiaries, although there are other possible beneficiaries whose importance is less clear and which may be left aside here. The three beneficiaries in question are Europe, China and Japan, but although we do not wish to go further into this subject at present it should be remembered that when dealing with questions of power what is important is not just military capacity and the power of a solid economic structure, but also the political will of the leaders and that of the citizens, which provides support and at the same time guidance for them. If there is not a decided political will, then any reference to the other assumptions of power is *ipso facto* inoperative.

It is naturally China which gives rise to the greatest perplexity and consequently the most diametrically opposed opinions. There are disputes over whether China is already a superpower at the same level as the other two or if it is just a large power which, despite its lesser importance, has made a spectacular and decisive entry into the international arena. As an economic unit, it is far from occupying the third place in industrial production as yet, and great stress is laid on the long efforts that will be needed for it to reach first place in the indicators of the gross product in view of the immense size of its population and the as yet unforeseeable results of a system of equalitarian socialism which has so far been adhered to with vigorous fidelity. Although it has nuclear weapons, its military capacity appears for the time being to be defensive or of a containing nature rather than offensive and threatening. Moreover, it is stressed that despite its political influence on some Third World countries, China has shown little missionary spirit or messianic expansion today or in its long tradition extending back over thousands of years; instead it has played with great self-assuredness—considering itself the “centre of the world”—the repeated role of cultural attraction and has shown an outstanding capacity to assimilate its own invaders.

It may be noted in passing that the interest aroused on all sides by this country today—as we shall see later in the field of the ideologies—recalls that aroused by traditional China among the enlightened Europeans of the eighteenth century and continually renewed among those unfamiliar with it by every contact, however superficial, with some of the books of the best sinologists. The intellectual attraction exercised by China has been a constant reality which has

been revived now by the experience of its revolution and its successive embodiments, which are undoubtedly difficult to understand at a distance even with the aid of the clearest possible explanations. Returning to the realities of the present day, however, it seems indisputable that China is the great beneficiary of the present changes in the systems of power. Japan is very definitely an economic power with its own field of influence in Asia and great commercial and financial importance for the rest of the countries,

but it is still under the protective nuclear umbrella of the United States, and it is not easy to predict how and when it will be able to act with full political independence in international relations. As regards Europe –or rather the European Economic Community– it is not necessary to go over again what has already been stated and is well known. It is an imposing economic area, but it is not yet a unified political area with its own autonomous bodies capable of taking international power decisions.

Power diffusion or power vacuum

The second question posed by the experts undoubtedly comes within the field of the sociology of power, which we have already been discussing in its main lines, since consideration of this question definitely involves that of the problem of whether the alterations in power relations felt to be likely in the era of possible détente really constitute a diffusion or a vacuum of power. Although detailed analysis of this problem would take us too far away from the subject, it can be argued, firstly, that the expansion of the “club” of the countries with nuclear weapons is a peril capable of smashing the voluntary mutual civility –the balance of dissuasion– of the two superpowers. A minor power could sell its arms of this type or part of its nuclear generating capacity to other countries involved in conflicts. Moreover, the fear has been voiced that even a modest stock of atomic arms would be sufficient to become an element of blackmail if some small countries became desperate about the conduct of the big powers. Apart from

such possibilities, the power vacuum –which is a consequence of the renunciation or indifference of the superpowers– could also manifest itself in the outbreak of certain conflicts with a long historical background between medium-sized or minor countries, and even if only the so-called conventional weapons were used in these, the effects would be nonetheless destructive in view of the small area in which they would be employed. The supposed power vacuum also includes other well-known phenomena which could spread or spring up in certain situations and at certain times, such as guerrilla wars or acts of organized terrorism. War is a chameleon, as A. Aron so rightly said. We must leave these questions on one side, however, not only because they take us away from our subject but also because of the assumption already stated earlier that the true sense of détente –its success or failure– lies in whether or not its organization and achievement can lay the basis for a peace which makes such phenomena difficult or very unlikely.

Having thus completed this rapid incursion into the strict field of positions of force in present-day international relations, which only serves as a necessary background, we will try to take up those aspects of détente which affect us most directly both existentially and as regards their interest from the point of view of a social science without any tendency towards specialization. We already stated earlier what our immediate perspective now is: namely, one that attempts to determine how far it is possible to forecast the consequences of détente, that is to say, its likely repercussions in the various fields of domestic policy, ideologies and economic activity, insofar, of course, as this can be considered analytically as separate fields. Before we set about this, however, it is essential that we should make a methodological recapitulation. Firstly, it must be postulated from the beginning, setting aside all types of doubts, that détente is a process which is

in progress although it is not yet fully complete. Secondly, the prospective analyses necessarily deriving from the efforts undertaken cannot be anything but purely exploratory: they define a framework of presumed situations whose conditions of objective possibility can only be specified through the execution of detailed empirical studies which are beyond our scope at this time. The proposals that can be put forward, however, are not purely speculative—in their literal sense—since they are based on experience of reality although they do not yet permit the causal imputations to which any interpretation of a scientific nature must pretend. It is not necessary to stress that the assumptions of our immediate examination and the proposals which contain them are already to be found in various forms of expression in the abundant literature which includes contributions by competent specialists of the most diverse affiliations and disciplines.

The search for a new identity

It is usual to indicate, as the most immediate repercussion of détente on the main protagonizing powers and their allies in the domestic political field, the need for an awakening of awareness of the actual functioning of their respective institutions: that is to say, the urgent need for an examination of their present political systems—organs, practices, procedures, etc.—and of the nature of the personality and political culture defined through them. There is thus affirmed, as a close possibility, what may be described in Anglo-Saxon terms as the search—reminiscent of a social psychol-

ogy of Freudian heritage—for a new identity, that is to say, the attempt to find an autodefinition of themselves in the light of the modified circumstances.

The argument, which does not always proceed in this explicit form, starts from the old idea of the primacy of external policy over domestic policy. The profound change in the former which the proposed détente brings with it can hardly fail to be reflected in the latter, since this loses an important part of its goals and orientations. The structure of the cold war, with its vigorous limitation of the enemy and of

antagonistic doctrines, at the same time fixed the ambit of the internal confrontations: both the admissible and the inadmissible. The play of political ideas and organizations was restricted by the peril represented by the presence of the enemy. This is a concrete manifestation of old sociological propositions about the relationship between one's own group and an alien group. The alterations in the conformation of the alien reference group affect the nature and type of cohesion of the former. Insofar as the protagonists in the cold war are freed from the restrictions imposed by its rigid structures, they feel obliged, in response, to find new means of consensus. The formula of the quest for a new identity is none other than the formula of concern to find a new political consensus. The process of détente, and even more so its full achievement, imply a generalized crisis in the form of this consensus that has prevailed for so many years, and the crisis in this consensus brings with it the examination of the validity—felt to be self-evident until today—of various institutions.

This demand for the reflex review of a country's own political structure, implied as one of the immediate consequences of détente, is accentuated by the demands of historical developments, since it is felt that in the near future there is bound to be a renewal of the leading circles on both sides, on the one hand through the machinery of the electoral system, and on the other by the inexorable law of the vital cycle, which keeps bringing new generations to the fore.

The arguments put forward are completely plausible, that is to say, completely reasonable, as far as the propositions on which they are based are concerned. It is necessary to add to this form of sociological disquisition,

however, that which derives from historical experience and reveals the general exhaustion of some institutions which now have many years of existence to their credit. Without a detailed history of the recent past covering economic, political, social and cultural matters—a history of an era which culminates in our times with manifest signs of deterioration and visible changes—it is very difficult to understand and even more so to prove the hypothesis in question which imputes to détente—perhaps an effect in itself—the necessary determination or conditioning of the very serious problems of political consensus in which the majority of States now find themselves. Such history could by no means form part of the work described in these pages, however.

This quest for a new identity is to be observed on all sides, almost without exception. Thus, it is to be seen both in the case of the United States and the Western democracies and that of the Soviet Union and even China.

The United States and the main industrial countries of Western Europe have in common the fact that they have offered for two decades what seems to be irrefutable historical proof of the equivalence or parity between riches and democracy and have served as the model which the theorists of modernization hold up so insistently before all the supposedly backward countries as the goal which they should seek. It must be recognized, however, that for the Europeans this model has not ceased to be novel. So much so that in view of the undeniable graphic expression of this situation in the bulb-shaped figure of its stratification by income or status, the sociologists of that continent, of the most varied affiliations to left or right, have spent a great deal of time on defining the sense of this type of

society: What denomination should be given to industrial societies from this point of view? Homogeneous? Made up of middle sectors? Made up of middle classes at relatively similar levels? The precise answer is not important for the moment. What is important, in contrast, is the fact that in this structure it seemed that the great social tensions of other days were disappearing from its surface and that as a result of their institutionalization or of compromise the various class differences and antagonisms which had shown up so acutely in the previous social history of these countries had been kept in the background, although not completely suppressed, of course. It is quite true that Western Europe had not yet fulfilled the hopes of all those who expected from it the realization of the first model of liberal socialism, although there had not previously been any concrete example of this in history, but at the same time even those persons accepted the approximation to this provided by such a social structure based on an economic system of a predominantly mixed character. In the last few years, however, the situation has proved less satisfactory, and signs of cracking up are appearing on various sides.

The present circumstances of the greatest democratic power, the United States, are known to all and this is no place to go into them in detail. The domestic repercussions of the Vietnam adventure, the bursting of unsuspected political scandals, and other inconsistencies in the United States régime keep up the impression of the urgent need experienced by the country to try to rehabilitate its flawed personality, which has been so prominent until today to all of us that, as has so rightly been pointed out, everything that went on in that nation—good or bad—had almost inexorable repercussions on the other

countries. Take, for example, the effects of the rebellion of the young people and the various efforts at countercultures which sprang up there and spread in a more or less attenuated form to many other countries. What features is the sought-for new identity likely to have? What are the elements which will finally establish themselves and which are indicated by experts? A swing to the extreme right? Some form of radicalism? A reconstruction of the traditional more or less conservative “progressive” line in its democratic institutions? Only the coming years will show, but at the same time it is possible to make reasonable forecasts.

Generally speaking, all the industrial democracies are faced in the search for their own identity with the same problem which de Tocqueville’s futurological fears brought to our attention many years ago: the danger of a democracy which is on the point of converting itself into a tyranny of the majority and forgetting its great liberal component. It is also quite true, however, that at the other extreme from this danger is the peril that the liberal position may amount to the same thing as the exclusion of any capacity for running and governing the country.

It would therefore appear that the next common effort to be made by all democratic systems is a task of restoration. Restoration is a word of ill repute in many circles, and it is therefore necessary to clear it from this misunderstanding, since what is involved is not the patching or whitewashing of the manifest flaws in the existing façades, but a process of strengthening the foundations as deeply as possible. It simply means reconstructing everything that past life has shown to be lasting and valid among the original inspirations: i.e., all the values and organizational

elements which have remained firmly established in the present system and are really quite numerous. This is why there has rightly been talk of the tasks of a new liberalism, as suggested by, *inter alia*, R. Darhendorf from his European point of view. Since we feel that this is one of the best summaries of this matter, let us recall that Darhendorf said that a liberal defence programme can be conceived today with the aim of safeguarding the beneficial effects of the "citizenry" from the dangers of perversion involved in the attempt to make them too perfect. He went on to indicate some of the limits which are already being passed, such as the limits in education regarding the classical idea of equality of opportunity, the limits in political activity connected with an excessive conception of participation capable of immobilizing any political system, and the limits of a pretended sectoral democracy which only favours by this fragmentation the interests of particular groups. If these limits are not recognized, the liberal tradition is in danger of breaking up. "There is a suicidal tendency in 'the citizen' —a death-wish which seems particularly marked at present". In brief, the perils of the present democracies seem to be manifesting themselves as phenomena of erosion which the publicity of their régimes undoubtedly reveals quite clearly.

In contrast, it is said, the perils of the Soviet-inspired socialist systems lie in the possibility of more concealed explosive phenomenon, of the rapid release of suppressed latent tensions. A delicate question is raised by this form of approach, and it could only be accepted with reservations as the starting-point of an attempt to make forecasts. Those who are outside the almost esoteric circle of the Kremlinologists can only

follow a few trails in seeking the possible courses that will be taken by the new form of political consciousness of the Soviet world as a consequence of détente. Among these are the indicators of the questioning minority either inside the country or in exile, but these indicators give little idea of the real extent of this. If we take literally the declarations made by a famous novelist, the volume of scepticism and of resigned or cynical acceptance of the official doctrines is of such magnitude that it is difficult to understand how repression manages to contain its effect. It is more reasonable to assume, however, that the majority of those who are protesting do not attack the system under which they were born directly and in itself, but only a more or less large number of its imperfections, which can only be appreciated when they have been experienced within the system. Another path is to be seen in the intellectual output of university academics of the satellite countries, who deal fundamentally with the still-unfulfilled promises of a transition to a situation of liberty in the imprecise phase of full communism or of the total suppression of any type of alien beliefs. The heterodox deviations most widespread in the West derive from this philosophical criticism. Thus, while the first path is based on statistics which are at present unknown or unsatisfactory, the second is situated at rarefied heights of metaphysics which cannot normally be reached by ordinary public opinion. The conditions of objective possibility —those which are of interest to us now— are perhaps located at a level which is less sublime but much nearer to daily desires. This permits the suspicion to be entertained, on the basis of the most elementary sociological analysis, that the conditions in the search for the new identity of Soviet power referred to lie

basically in the effectiveness of its own successes.

Setting aside all doctrines, the undeniable fact is that Soviet socialist policy has set up and maintained an industrial society on the same level of reality as the West, with its own special economic, educational and social achievements. This industrial society today shows quite a few problems, however, which are similar to those displayed in the West. There is no question of reviving the theory of convergence, of course, because regardless of whether or not this exists in certain aspects, what is of interest in the final analysis is that the internal transformations which have taken place in Soviet society have already made it necessary, and will make it even more necessary in the future, to make an effort to adapt to them, or rather, in conventional terms, to adapt the political and cultural superstructure to them. Consumerist tendencies among the population, the formation of new social strata in addition to the dominant bureaucrats, and the different aspirations of the new ruling groups, with the contradictions or antagonisms between their various interests, constitute the real conditions with which Soviet political orientation must cope in the coming years. It may also be necessary to take into account a possible conflict between the generations, of the type with which we are very familiar in the West, since the time to find successors for the old rulers is imminent. In this respect, however, it is held that the solution of this problem should be easier insofar as the system of co-opting rulers functions and persists, because this makes it possible to select in good time among the most conformist groups (whatever the motives for their conformity), thus obviating excessively abrupt changes.

China is not exempt from passing through a similar situation either, in spite of its experience of intense internal changes, with or without flowers. China too, against the background of détente and the substitution of its old rulers, will soon have to seek a new identity for itself and a new image in the international field in which it made its appearance so recently. In the case of China, however, any attempt at forecasting—at least as far as the writer is concerned—runs into the difficulty of balancing fascination and ignorance.

The layout of these possible changes in the internal field deriving from détente, although this can only be viewed as a process in action, with its corresponding advances and setbacks, explains the continuing ambiguity already referred to. It not only gives rise to political suspicions and fears among those who are still defending the positions established before détente, but is also viewed with very different eyes by those most directly affected. For this reason, this ambiguity is most obvious among the Western European countries which have always feared that they will be the first obvious victims of any disaster deriving from a lack of understanding. Therefore, their contradictory fears—and their corresponding political versions—bring out more clearly than elsewhere the ambiguities still inherent in détente. The “Finlandization” of Europe is thus just as threatening a spectre as the other menace baptised with the name of a Latin American country.

Be that as it may, the assumptions about a change in the political culture and personality of the main powers affected by détente, which appear to be held by many people, are fundamentally reasonable. The real future continues to be an unknown quantity, but the effects

of the objective possibilities of détente are discernible up to a certain point in the political field, the economic field and others, provided that the various forms or scenarios of détente, to which we will refer below, are kept in mind.

The ideologies and détente

There is perhaps no field where it is so easy and clear to sketch the almost immediate effects of détente as in the ideological field. All the positions of opposition and combat, all the antagonisms and disputes both within a country and in its foreign relations were covered by the ideologies prevailing in the two opposing superpowers. Regardless of whether or not there had been missionary incursions, the situation would have turned out exactly the same, because of the requirements for doctrinal justification contained in the structure of the cold war. Neither of the two forces could safely do without such self-justification, which was in keeping, of course, with the tendency of any powerful person or victor —of any person enjoying privileges, as shown by the experience of all past times— to give the others good moral reasons —philosophical or religious— for his enjoyment and use of that power, privilege or mere distinction. Social stratification has never existed alone, but has always been accompanied by its corresponding doctrinal support. In this case, however, this was even more marked than in possible antagonisms between different social strata. Since the situation represented was that of a complete and almost absolute counterposition between two opposing powers, the need for justification was even greater, because it was not only of value for use against the enemy as a reasoned argument for

opposition and as a ground for calling for cohesion from domestic public opinion, but it also concerned all the assumed third parties who might in principle feel that they had no part in the dispute: thus, it presented the dispute as one which they could not avoid on any grounds, because of its importance to their own survival or advantage and interest. Therefore, as already stated, the structure of the cold war involved everybody in the dispute, and this was reflected in the same distribution of positions both in domestic and international policy. Such a distribution could hardly fail to be turned either for or against one or other of the ideologies of legitimation. It is therefore not sufficient to consider their polarity relationship, however important this may be, but rather the whole integral nature in which it is offered, since these ideologies, being pillars of a structure of coexistence, had to be accepted integrally by all those who entered into the game of keeping up the antagonism between them for one or another reason. Only a few minor discrepancies were tolerated here and there, and then only provided that they did not endanger the established concert of co-existence. Consequently, the sway of the two opposed ideologies was for many years almost absolute.

The question today is whether détente will necessarily bring with it, sooner or later, a loss of importance of

the ideological confrontation which has so far dominated. Now, the breakdown or mere dilution of its imperious influence may have two possible effects, which may be independent or combined. On the one hand, there may be a transformation of the ideologies which have been freed from their status of granite pillars, while on the other an ideological vacuum may be created among many of those formerly obliged to follow these ideologies with the most unquestioning fidelity. Finally, the ideologies may lose their importance as a decisive factor in the negotiation of economic advantages and political protection. The devaluation of the ideological confrontation would therefore leave both types of countries abandoned to their fate in an open field of doctrinal creation.

This question has aroused the attention of various specialists interested in forecasting the ideological horizon of tomorrow. It is quite true that this might not seem to be anything new, because for years now there has been talk of the end of the ideologies, but in these terms the problem was false because of its faulty expression. It is unlikely that the ideologies, as such, will disappear in the future: what is really involved is the modification or mere wear and tear even of these or other concrete ideologies. They have always been subject to this wear and tear, of course, like all human institutions.

The present approach is different, because it does not concern forecasting in general, but rather observing what is really possible in the ideological field when it begins to be penetrated by the effects of *détente* and of the slow (or rapid) dissolution of the structure which

these power relations have maintained for a long period through every kind of means and mechanisms.

Among the investigators of this ideological vacuum, in my opinion an outstanding place is occupied by the views of A.J. Vidich, a sociologist who describes it in this respect as "ideological decentralization", by which he does not in any way mean the return of the old nationalisms or the functional exhaustion of the present international organizations and systems through their growing rationalization, but the predomination of local or "parochial" interests in the modes of facing up to all these universal processes. It is not necessary to accept all the consequences which Vidich contemplates in order to recognize basically the valid significance of his proposal, which is, as already noted, that the smaller powers which were previously satellites will be left free, for good or ill, to create their own doctrines or ideological points of view.

This situation by no means signifies the disappearance of the polarized antagonism of the immediate past and the immediate transition to a world without conflicts and confrontations; on the contrary, the loss of influence of the traditional ideologies may give rise, in the attempts to replace it with something else, to "new styles of conflict and disorder". A final prospective analysis could only be carried out concretely in line with the special circumstances of each country. At all events, however, this is one of the most attractive subjects with which contemporary thinking must concern itself. What is the likely consequence of the ideological vacuum left behind by the two great opposing powers and their "parity"?

The ideologies of development

Perhaps the most immediate reflection of this ideological vacuum and of its implicit encouragement of new ways of thinking is to be found precisely in the sphere which is now of most interest to us: namely, that of the ideologies of development. Can we accept this expression? Partly yes and partly no: this is something which we should go into more deeply. The use of this expression can hardly scandalize us, however, in these days when we talk of development as a myth—the same used to be said about planning—and when there are complaints about the disappointments of development and it is felt to be elusive. It is worth stopping for a moment to consider what we are trying to say when we call development a myth, since the meaning of this expression is equivocal. The term myth can be interpreted in its strict Sorelian sense, in which case it represents a powerful source of mobilization capable of stimulating enthusiasm and efforts for the fulfillment of day-to-day economic tasks which would otherwise slip into a traditional routine. At the same time, however, this myth, in the form in which we have experienced it, has involved the confusion of development with growth. This is a purely economic conception, as Celso Furtado so rightly pointed out. In the case of development as an ideology, three-quarters of the same thing has happened, although other new notes are to be observed also. Firstly, it is not correct to call development an ideology, inasmuch as it concerns a problem which is purely scientific and which is therefore formulated within a science whose propositions can in many cases only be ignored at one's own risk and peril. Everyone knows, however, that the

theories of social science often give rise, whether one likes it or not, to ideological effects which are alien to the studies involved and which cloak them like an aura and promote other, extraneous interests. This is not the place, however, to go into this constant threat to scientific reason. In the past, the demands of development have not been put forward as a mere turn of chance, but rather as the awakening of awareness at a particular moment of real problems which appear for the first time to be capable of a solution as well as being morally unacceptable. For this reason, the effective need for development—including even purely economic growth—continues to be acutely present in many places, no matter how equivocal its achievements may have proved and in spite of the disappointments which it may have produced.

It should not be forgotten, however, that the idea of development was encouraged and promoted from outside at very well-defined times in the countries held to be "backward" by other countries which were advancing at the head of the industrial process and which disseminated this idea in accordance with their own experience. The ideology of development was the political and doctrinal form assumed by the supposed solution to a technical problem under the influence of one or other of the dominating powers. The ideological nature of development lay in the manner in which this solution was presented as an exclusive and almost absolute truth within a historically defined system. As in the rest of the ideological struggle, there was only one choice between the two models offered. The ideological decentralization which is now postulated

as a result of détente represents a challenge which is at once full of great opportunities and equally full of great perils, since the more open horizon now facing the countries' inventive capacity in the field of development, far from implying that there is room for untrammelled fantasy, means on the contrary that they must abide by the conditions of possibility offered by a reality which is very well defined in each case and depends on the prevailing conjunctures, on the experiments already made, and on ideals about the future image of society which are very different in each of the countries now wishing to take advantage of the facilities which previously did not exist. This means that, as regards the subject of styles of development, there can be no doubt that détente opens possibilities of new options which are no longer limited to the choice between the two principal models (a choice already broken by the Chinese experience), although the field of options continues to be limited, since, as already stated, our possible preferences for a particular style of development—regardless of whether it exists in reality or is simply a theoretical possibility—run into the difficulty that each of them depends for its realization on the framework of facilities and difficulties which, in a given situation and at a given time, are the obligatory prevailing conditions for a particular country or group of countries. The existing material and human resources, the established courses deriving from insertions of a geographical or political character, the persistent long-standing cultural traditions as regards customs and attitudes which make them up, and the level of economic organization from which one is starting are (among other factors) the effective conditions and current tendencies with which it is

unavoidably necessary to comply. Something that might seem an ideal option, such as a frugal and equalitarian form of socialism, for example, may in certain circumstances be impossible to achieve, or possible only at the cost of great human sacrifices and sufferings.

Styles of development must not be imagined in an abstract vacuum, because they always form part, whether we like it or not, of historical economic systems that only permit reforms, adaptations or adjustments from within, although these can result in decisive changes. It is to be assumed that the era which is now opening for the developing countries as a result of the détente among the super-powers and the ideological vacuum or decentralization deriving from this will give rise not so much to an ardent formulation of new ideological postures as to the initiation of pragmatic and extremely flexible policies capable of intelligently combining the very necessary elements that are really available and that must be used as the basis for each individual approach. A policy of continuous adaptation to real conditions attentively observed and if possible foreseen is therefore easier than an orientation towards radical changes. The imagination needed to carry through a process of vigilant negotiations and undertakings is just as great as that required by any other type of invention.

The repercussions of détente in the field of economics constitute a completely untouched subject, assuredly because they show up less clearly than in the political and ideological spheres. By a curious and apparently casual coincidence, however, the beginning of the economic recession in the great industrial countries has gone hand in hand with the initiation of détente. Perhaps we can go further than just noting such a coincidence. The recession itself has

plunged its economic interpreters into a state of perplexity, as summed up in the strange term "stagflation" by which it is designated. The recession does not, however, have the anecdotal flavour of the dramatic moments of other crises, since nobody among the experts believes that the oil cartel has been a decisive cause in it, although this has represented a lesson which has been alarming to some and stimulating to others.

It must be confessed that a similar state of uncertainty is to be encountered in the attempts to make forecasts regarding the recovery and above all its causal relationship with détente. As far as is known, no economist holds the recovery to be impossible, although they do not coincide over the time-scales involved, which naturally vary from country to country. But although the recovery is viewed as a foregone conclusion for the great industrial countries, as far as we know any attempt to situate the recovery in the new conditions of détente is conspicuous by its absence, unless the explanation is that economists are not fully convinced of the possibility of a recovery, which scarcely seems likely.

In view of the relation between armamentism and industrial expansion in certain countries—although some feel that the causal influence of these two things has been exaggerated—one would be justified in thinking of the consequences of the planned disarmament—only partial, of course, but nevertheless more or less substantial—for the economic reactivation not only of the great powers but of all the other countries too. To what extent, for example, could some parts of the sums thus saved be used for the benefit of the neediest countries and social strata?

So far, the assumptions about the recovery have been of the strictest

traditional nature. In this respect, they are positive, but they shed doubts on the credibility of any assumptions that may be made beyond these limits, for it is to be assumed that even in the new conditions of détente the great industrial countries will continue their customary path, concentrating most of their production achievements in their mutual trade, for example. As one of the strongest impulses of détente will be the mutual benefit of considerably more valuable trade between areas and countries which until now were antagonists, however, it is also to be assumed that if such purposes are realized they could hardly fail to result in a general expansion of world trade. A more universalized international market of this type could achieve greater dimensions from which all could benefit, provided that détente entered into a state of stable maturity. Some of the other assumptions that could be made, however, appear very problematical.

If we assume that there will be a new situation of prosperity in the industrial countries of both systems, will these countries increase by an equal proportion their aid and support to the less developed countries? The sceptical attitude of taxpayers, which has been very marked in recent years in some of the democracies, and their rejection of what they consider to be the dubious use made of the financial resources made available as aid to other apparently ungrateful countries, does not seem likely to be easily changed unless there is a boom of a spectacular nature.

It would be still more important to be able to glimpse whether the recovery will follow its old lines completely or if in some respect there will be an authentic *prise de conscience* of the perils and threats which the intensive intellectual activity devoted to this

subject makes likely for the future of the present industrial systems. It is quite possible that the most visible aspects of the threats to the ecological balance—those directly suffered—will be taken into account provided that they cannot be transferred to far-off and as yet less affected countries. Even though sensitivity to the fate of far-off fellow men may not be very marked, however, what has been termed the concern for the future may be more acute.

Minor restrictions such as those imposed as a result of the oil crisis are to be expected in some activities, as well as more vital interest in the question of the shortage of certain resources. It seems improbable, however, that there will be a fundamental psychological change which will modify in the next few years the prevailing tendencies of the older "consumer societies", which are those capable of giving the newer societies of that type—avid for easily explainable consumerism—the demonstration effects which have so far been negative and the new models proposed for general imitation. History is a sluggard, as Ortega y Gasset used to say, and it is therefore very slow to change collective customs and personal habits. It is not necessary to agree with the prophets of doom in order to recognize that changes only usually take place in the face of imminent danger.

It does not seem that in the next few years the internal evolution of the economic machinery in the great industrial countries will be of such a nature as to oblige them to move towards this future "zero growth state" which has already been mooted in the great centres in a manner which is as suggestive as it is careless of the inevitable effect that this would have on the peripheral or semi-peripheral countries.

The first reasonable generalization that could be made about the likely course of events in the less developed countries, once the recession has been overcome, is naturally that they will return to the positions they occupied before it, in the same form as before. As the present considerations are being made on the assumption that a variable will be introduced by détente, however, it is to be assumed that this new state of affairs is bound to have some effect on the development of these countries. It cannot be forgotten—such repetitions are unavoidable—that the main consequence of détente on the tenseness of the power relations between the super-powers—in the extreme case, of course—would be the abandonment of the lesser powers to their fate when the hitherto prevailing political and ideological affiliations lose the importance which they at present still have as regards negotiating capacity. Abandoned in this manner to the relatively independent orientations of their own fate, the opportunities thus opened up for them could be just as promising as they might be unfavourable and negative. Everything depends on their specific potential for creating policies which demand a certain definite dose of effective realism and imagination.

In the conditions thus described, it is at present only possible to draw in very vague outline the various situations of the developing countries. Those which are really semi-peripheral, that is to say, those which, in spite of the structural heterogeneity from which they still suffer to various degrees, offer along with a greater or lesser degree of industrialization other proofs of "modernity" and possess sufficient human and natural resources, will enjoy a negotiating capacity similar to that of other countries which have passed through or

are emerging from this phase, and they can enter into the voluntary dependent relationships which are characteristic of all these countries. Relatively small but very rich countries –the oil-producing countries are the outstanding example so far– will naturally enjoy much greater negotiating capacity, although they will be subject to the dangers of miscalculations which can produce irreparable

long-term losses. The medium-sized or small poor countries, however, which have scanty resources and a long-standing accumulation of poverty, will be deeper than ever in the painful situation of depending on the benevolence of others unless they can find some way of integrating themselves successfully into groupings of greater size and economic potential.

Transnational relationships

This subject is almost astride the limits of the field of economics through which we are passing, but since it is nevertheless substantially within it, a very brief consideration is called for of the present and future significance of the so-called transnational relationships. It is by no means infrequent, in the case of any type of discovery or what is assumed to be a discovery, that its authors engage in abundant conjectures about its importance. Thus, in recent years internationalists have perceived that something more was happening in their field than was previously considered evident and usual. International life, from this new viewpoint, does not consist simply of the activity of a few actors, namely the sovereign States, but is also the result of the very diversified activities of other different actors which form a network, and sometimes a very dense network, extending across various national frontiers and linking the countries together horizontally. What they have discovered, in brief, is the existence of multiple transnational relationships of which the transnational corporations represent only one example, although without the rapid rise to fame of the latter perhaps

interest would not have been aroused in these phenomena. In reality, once one begins to delve in this field, the novelty is considerably reduced on discovery of the existence of their numerous forerunners in previous areas, such as the well-known case of the hardworking “bourgeoisie conquérante” in nineteenth century economic activity. What cannot be denied, however, is that this discovery has on the one hand encouraged the detailed analysis of the various forms and manifestations of this phenomenon, while on the other it has given rise, by some swelling of its importance, to a theory of international relations which is different from the traditional one, although it does not always demand that the latter be replaced on the grounds that it is definitely archaic. Whether or not it is entirely correct, we nevertheless owe some valuable detailed studies to its stimulus.

The existence of transnational relations is not, as we said, a complete novelty, as is shown by the continually quoted example of the Catholic Church, which has played a prominent role in transnational relations between the jealous sovereigns of powerful States.

What is a novelty on the contemporary scene is the multiplication of this type of relations in the most diversified forms. In addition to those of a religious nature there are those of a scientific and technological nature, those which have revolutionary political aims, and those which serve economic and financial ends. Transnational relations make up a big family joined, almost at the last moment, by the old Sicilian mafia which had already lost its insular nature. What should be stressed, without pretending that this is any novelty, is the so to speak private nature of the actors involved, which, in the case of organizations and foundations, operate without any governmental or official character. Their web of connexions extending at any given time over different countries is sometimes just as powerful in its effects as that which can be put into effect by any government, however. Although this web involves numerous potential conflicts, it is held that all in all it is an integrating influence. In any case, different countries may be united through this web and through the identity of interests set up in spite of, or sometimes even against, the official policies of the governments. It is this agglutinative influence within world politics which is highlighted by the specialists in this matter, who look askance at the obstacles imposed by sovereignties. This is what leads them to wonder whether the classic paradigm of policies of security in the international field is not out of date and whether the time has not come to replace it with another whose basic content would be a kind of universal dissemination of the objectives of the Welfare State. Only a few people take this proposal very seriously, however, because although there is no hesitation about recognizing the importance of transnational relations

at the present time, it is nonetheless evident that these relations still pass through the decision-making centres of sovereign States –although it is not known for how long to come– which are capable of regulating them, modifying them, and even making use of them when this fits in with their objectives. The urge to substitute one paradigm for another therefore seems somewhat over-hasty, although this does not mean any denial of the interest of the relations highlighted and the value of getting to know more about them.

As in other fields, it would be more useful to have at one's disposal a more or less provisional typology rather than a mere listing or taxonomic classification. While waiting for something better, the typology offered in this respect by Karl Kaiser is fairly satisfactory. Let us content ourselves with noting that basically it is made up of the following types: multi-bureaucratic decision-making centres, multinational integration, and the transnational company proper. Whatever the content of the relations in question, it is possible to include them in one or another of these types, and of course those of an economic nature. The possibilities as regards international politics are clearly different in each of them, and it would not be difficult, if desired, to single out some of the most obvious examples of their present-day manifestations. Thus, regional economic integration projects are included in their various dimensions within the type of multinational integration. There would be justification for leaving this item with an etc., if only because the subsequent analysis of these transnational politics generally does not offer a new typology of particular interest for our present opportunities of action, that is to say, distinguishing between a transnational policy of

equilibrium, another involving effects of domination, and a third involving penetration controlled from the exterior. There is thus a reappearance at this point of the effective differences of power—political or economic—which some would have liked to forget or to put in parentheses, neither of these things being possible, of course.

If we had the opportunity, and if this were within our competence, this would be the moment to spend a little more time discussing some of these transnational relations of the greatest interest for us: the economic relations, or those which have as their result the transfer of scientific and technological know-how. Since this is not so, however, we must avoid this temptation and limit ourselves to dealing only with what is strictly necessary in connexion with our subject.

The question of transnational companies or corporations has become a highly controversial issue on which new books and articles are continuously being written. Their formation and internal functioning, their effects on the host countries and their relations with their countries of origin are all subjected to close study. Before we proceed to any technical examination, it should be noted that praise and blame are heaped on them in equal proportions. To some, these companies represent in these closing years of the century the economic counterpart of the joint stock companies at the end of the nineteenth century, the only difference, of course, being their different fields of operation. The complaints from the host countries, and above all the less developed countries, have to do with their own impotence in the face of the economic power of such organizations, sometimes greater than that of the State itself, and the difficulties of controlling them

because their accounting complexity is beyond the normal knowledge and experience of the national civil services. There is no need to refer to the possibility of other types of intervention. Apart from these inconveniences and dangers, however, nobody denies the advantages that can be derived from the activity of transnational corporations: the production in the less developed countries of goods that would otherwise be unattainable and that can perhaps moreover be exported, and the teaching by technicians and entrepreneurs of the currently most advanced processes.

Similar arguments can be put forward, *mutatis mutandis*, as regards the dissemination of science and research methods in various disciplines through the transnational activities of well-financed foreign-based foundations or university centres.

There are of course many points of reference on which a less imaginative person can lean when trying to find ways of regulating the various transnational relations within a country. The common and oft-quoted example of the activities of the Catholic Church immediately suggests the instrument of the concordat, which can be extended by analogy as a form of agreement on matters other than those concerning the church. There are also those who recall as a model, in the strictly economic field, the juridical configuration given to joint stock companies in the mercantile codes that follow the tradition of continental European law, or the action exercised by Federal laws and the precedents accumulated by the Supreme Court in the United States as regards the scope of development of the corporation as a type of enterprise above all restrictions on interstate commerce.

Now, in the case of transnational corporations, their regulation through individual restrictive agreements of the concordat type would produce such a diversity of régimes that this lack of uniformity would make it impossible for these enterprises to exist because of their methods of financial operations, which naturally have to cover various national territories. And it immediately leaps to one's attention that in both types of law the type of juridical construction in question lacks the necessary supreme judicial competence in the case of transnational corporations. Where is the world authority that will make this possible at present? At the same time, however, among the present-day international organizations it should not be impossible to achieve a statute for transnational corporations which would be valid at least for the group of countries interested in participating in the preparation of the agreement.

This is the point at which we must necessarily enter the more restrictive field of our subject, since we must now try to deduce what connexion the phenomenon of détente can have with that of transnational relations.

It should be borne in mind from the start that the activities of transnational corporations have so far been carried on in relatively limited areas of the world, and that this was originally an invention of the United States capitalist system, later gradually adapted by various industrial and financial groups of other countries and sometimes taking the form of an invitation to the less enterprising capitalists of the host countries to engage in a joint venture. At all events, the activity of the transnational corpora-

tions has tended to be limited to certain well-defined economic blocs.

It is consequently to be assumed that a lasting stabilization of détente would bring with it a much greater expansion of transnational relations in general and of transnational corporations in particular. That is to say, it would cease to have its motive centres in just a few countries and would extend to joint ventures aiming to serve the mutual interests of both the capitalist and socialist economies. This is the point, we may recall, where the initial ideas of détente really began. It is sufficient to take account of the effects of this inter-State expansion of the operations of transnational corporations to assume that there would be a corresponding increase in the possibilities of controlling such corporations, since there would be a matching increase in the number of those interested in signing an agreement on their international status. The same conclusion can be reached by another path, which is worth following even though it brings us to the border of a state of affairs which is still utopian. Détente is only of significance, as we already stated, if it more or less rapidly succeeds in laying the foundations of a universal peace which is less fragile than the present one. In this possible scenario of détente, of which we shall speak more later, we find the minimum conditions for an international community which, if fully achieved, would permit the establishment and functioning of various world authorities. This extreme case includes the authority to which the regulation and concrete supervision of transnational corporations would be entrusted.

Dependence

While we are still dealing with the frontiers of the possible, on which we touched in the previous paragraphs, it is interesting to deal with a final question which is more accessible to intuitive groping than to realistic precision, and which, in spite of the dangers of obfuscation surrounding it, cannot be left out of the aspirations of the forecaster. An ever-recurring theme in recent years has been that of dependence, which has been used by some to the limit of the truth which it contains, while it has been utilized by others as a simplified key to explain very diverse historical realities. The causal imputation of dependence made it possible to interpret very easily not only the existence here and there of certain peculiarities of development, but also to concentrate in it all the conditions said to be responsible for this. On the other hand, it also made it easier to find the immediate formula for a solution. Thus, it was said, all the present difficulties would be solved if only we could escape from the unfortunate state of dependence.

The historical facts are not nearly so simple, but it is not the aim at the moment to examine this subject in all its complexity. It is sufficient to observe that all that was taken into account was the type of hegemonic dependence as a unilateral relationship. There is not the slightest doubt that this really exists, but limiting oneself to pointing out the effects of domination involved—and not only in the political and economic fields—would be nothing but a mere tautological operation. The presence of hegemonic powers is one of the most persistent phenomena in history, but it has not always given rise to identical

relations of dependence. What kind of dependence is involved in this particular case? In order not to draw the subject out too long, let us take, as an extreme concession, only the relations of dependence which are formed under the contemporary capitalist system. They undoubtedly vary from moment to moment and from country to country. What country escapes completely from one or another of their effects? Do they always constitute a limit which cannot be passed? Do they make it possible in every case to explain the various national peculiarities and all the phases and grades of development? The dependence in which France, Italy or Spain are at present to be found within their own "system", in their relative degree and with their different opportunities for manoeuvring, may be similar to the situation which will be found tomorrow in the case of Mexico or Brazil. These similar situations with their different historical backgrounds, however, cannot be completely explained by the relations of dependence which exist, ignoring the countries' own domestic capacity for utilizing, modifying or substituting these under suitable circumstances. The failure to recognize the various forms of dependence even within a single system is the factor which has made possible easy excuses for countries' own political and social deficiencies.

But what now arises in connexion with one of the possible scenarios of détente—and which must be considered in any attempt to look into the future—is the possibility that some time the present theme of dependence will become out of date because of the slow or rapid modification of its nature as a form of unilateral hegemonic depen-

dence. It will then be necessary, at least intellectually, to think about a novel form of this dependence as a plurilateral relationship and in its broadest form: that is to say, with even smaller possibilities of escape. The full achievement of détente as a lasting structure of peaceful coexistence would mean bringing out a world reality only perceived today as a background or as something in the distance: an interdependence of all places on earth so marked that it would only permit an effective dependence —that of common solidarity. But until the awareness of this moral comes out —as a reflection of facts rather than

a product of philosophy— the opportunities on the way to détente will oblige each country to maintain a global attitude, formerly the exclusive preserve of the great powers, which not only does not avoid normal relations of dependence, but on the contrary seeks them everywhere as a means of finding a balance among the effects of domination which are most favourable to its own interests. Dependence appears to be unavoidable in any event, but because it is generalized it will be different from the hegemonic dependence which prevailed until now on both sides. Is this a concrete utopia?

The possible forms of détente and prospective studies

The time has now come to make a certain recapitulation of all the foregoing. This does not mean making a kind of classified repetition of the propositions made, but rather putting the reader on guard, through a brief reflection, against what is perhaps the greatest defect that can strike the attentive reader: that of a more or less acute contradiction between the various propositions, since some of those enunciated were of the strictest realistic type, while others were close to a barely disguised idealism. The reason is that the writer, when tackling the different themes which interest him, must naturally bear in mind the possibilities of different kinds which, whether he likes it or not or is aware of this or not, demand different attitudes from him. The impression of such contradictions and the consequent confusion can only be dispelled if everything that has been said is viewed in a context which is not yet

explicit about the possible forms of détente and their political and economic implications.

Before setting out this scheme in the shortest and most flexible way which is feasible, however, two observations are called for in order to avoid possible misunderstandings. Both of these involve a similar temptation to engage in long digressions which would be quite out of order at this moment.

The first of these brings us to a constant feature of scientifico-social thinking in general and of any attempt at prospective analysis in particular: namely, the inevitable valorative relations in the construction of the object of study. What happens, in effect, is that whatever the attitude of the author or the attitude that others wish to impose on him —strictly neutral, an unrestrained participant, or merely pragmatic— in reality it is not possible to avoid estimative preferences and valorative

positions with regard to the ideals of the society in which the author lives or which is considered as a future society. These values, therefore, are not restricted to a particular field but cover the whole human conception of what is desirable. Consequently, it is not advisable to keep them hidden or merely implicit. Every statement about the future involves an option for one system or another of values, even though there may be painful misgivings about its possibility.

The second observation, which is related with the above but is not to be confused with it, concerns a characteristic of futurological or prospective studies which cannot have passed unnoticed by even the superficial reader of this type of "investigations". Generally speaking, all these show the same schematic order of horizons, scenarios or attempts to make forecasts, usually having as their starting point a situation which is considered, although usually only tacitly, as the most desirable or as the best for eliminating the condition which is considered to be the least desirable or worst, and passing through an extensive intermediate zone in their trajectory in which many of the known notes of the present reality oscillate towards one or another of the extremes: that is to say, a prolongation of what is being experienced now. This is a situation in which the conditions of its possibility are almost confused with those of its probability, inasmuch as the researcher starts off in his empirical analyses from an examination of the real tendencies observed at present.

The noteworthy feature of this characteristic lies in its inversion of the classical position of the philosophy of progress, in which the image of the best was the culminating point of its scheme of a historical process. Any attempt to

consider in greater depth the reasons for this inversion of views would be an undesirable digression, so we must satisfy ourselves with the suspicion that it is perhaps due to the persistent gravitation of one idea, that of progress, in which we no longer believe nowadays, although we do not accept the total renunciation of it either. Be that as it may, this fact exists in the structure of any prospective investigation in contemporary thinking, and it therefore also imposes its demands for compliance on the modest essay which will be made in the following pages.

None of the futurological schemes which are already known or will continue to be developed in the future, however, have any intrinsic validity as such or even as systems of hypotheses, but only through the confirmation that may be given to them by a patient empirical investigation, in this case historically concrete. Even so, however, it is not possible to do without them completely and to refuse to accept them on a provisional basis, since they constitute the coherent framework which guides us in our search for the effective trends and their approximation to or departure from what is from the very beginning a pure mental construction of the possible. Only in this, their nature of intellectual constructions of objective possibilities, do they have validity in a first stage of the work as "ideal types" —something which, in the strictest methodological sense, they will only become later on when they are filled up with the historical meat which for the moment they lack.

Détente, it must be repeated, has been considered in its double capacity of a process which is in motion and a goal which is worthy of being pursued. Perhaps this goal will never be achieved: no one knows for sure. The only sure

and visible thing is that the process itself does not follow a straight line but moves back and forth, makes false steps as well as correct ones, and at the present time shows a twisting form of progress. The onlooker who follows its course in the daily press or in the scientific commentaries of various magazines sometimes loses his depth and flounders desperately in scepticism. In order to avoid such problems it is necessary to withdraw a reasonable distance from scientific knowledge and have the patience needed to view events without haste for a reasonable length of time. Nobody can guarantee the end of the adventure or that it will have a happy ending, but this is the risk that has to be run if it is desired to achieve a minimum of forecasting regarding the possibility of

practical actions and concrete policies in keeping with a moral tone of responsibility. This means that the direct, indirect and secondary results of every action must be rationally weighed as much as possible.

The still uncertain progress of détente, which seems to be wavering on more than one occasion, enables its configuration to be visualized in three possible ways, which represent three scenarios for the immediate future that interest all of us equally, and not only the main protagonists. We must therefore keep in mind the following types of détente: co-operative, competitive and conflictive, with their respective characteristics, conceived of course in their dynamic form and not merely as static or permanent phenomena.

Co-operative détente

Co-operative détente represents the scenario in which détente reaches its full maturity and consolidation. It represents the moment of achievement of its objective, which, however, is not a full stop or conclusion but merely another step towards a new turning point in history. In its internal structure, the impulse for concord—in the terms of the humanist Luis Vives—may be conceived as so strongly predominant that some, making a play on the French words, have suggested that “détente” should be changed to “entente”: a more or less cordial entente in no way limited to the mutual advantage of the two superpowers interested in initiating it, but affecting also in a positive manner the whole group of other countries.

From a global viewpoint the horizon of such détente would offer three

important effects as an objective possibility. First of all, there would be a growing generalization of attitudes guided by universalist points of view. That is to say, co-operative détente would not, as some people thought, signify the deglobalization of the political interests of the great powers and the loss of their universal outlook but would on the contrary bring with it more or less marked acceptance of that viewpoint by all the countries, which are forced at present to look after their own interests as a function of the possibilities offered by any action undertaken in various parts of the world. This position would represent a continual maintenance of awareness of the reciprocal demands of effective world interdependence.

This situation would consequently favour a general trend towards desatellization. This would not mean, of course,

that there would be a state of unconditional liberty, which is never possible in any type of social action, nor that there would be a definitive breaking of sympathies and differences and voluntary affinities between countries and systems, but simply that none of that would be obligatory any more. That is to say, the unavoidable effective situation of being a satellite in a political, economic and cultural field would not bring about any punishment for unfaithfulness when such a satellite, because it saw fit to do so, entered into the orbit of other centres of attraction for some reason. The traditional ally would not cease to be an ally because of circumstantial agreements with other powers, nor would the regular customer lose this status by entering into commercial and economic arrangements with other countries. The "desatellization" would simply mean more flexibility in the international behaviour of all countries, without there being any fear or threat of immediate conflicts. This generalization of a global attitude in the policies of the various countries would involve the presumption that there should be some identity of views by all countries as regards attaining new codes of rules of a worldwide nature, since the awareness of a very close interdependence would favour the establishment of functional authorities with worldwide competence to deal with all the questions and problems of indivisible common interest which can only be settled by the voluntary acceptance of universal decisions.

It is not possible to give an exhaustive description of the reflections of this general co-operative attitude in the economic field. But without going so far as to make the utopian assumption of radical transformations in an actual situation which will offer much resist-

ance to change for a long time, there are some general consequences which can be taken as objective possibilities. Among them are the expansion of the market until it becomes more deliberately universal than it has been so far, and the recognition in that market of the right of all countries to seek and find the most favourable trade relationships, with the consequent predominance in the field of financial and credit assistance of multi-lateral relations rather than bilateral arrangements with possible non-economic strings attached. Finally, in the ambit of transnational relations—not merely those of an economic nature—it can be assumed that there will be a preponderance of "cosmopolitan" attitudes rather than "nationalist" attitudes, to use the dichotomy favoured by certain experts. So far, the intellectuals and academics of the central countries who have been the advocates of the cosmopolitan position have tended to reproach the smaller countries with their "nationalist" attitude, forgetting how far and in what ways their own countries have fallen into this sin. Of course they had to be excused because of their progressive intellectual generosity, although this sometimes came rather too easy. Assuming a new situation of economic interdependence perceived and maintained as such by all those concerned, then the ideological counter-position falls on the side of the cosmopolitans.

It cannot be denied that the consideration of the possible forms that could be assumed by the internal policy structures is a delicate and tricky matter. It does not seem, however, that it would be pure nonsense to maintain that in a world climate of co-operative détente non-authoritarian political régimes would finally prevail. Of course this

proposition must be taken with the necessary grain of salt, however. The various authoritarian governments cover a wide range of forms between the two extremes of tyrannical domination and the dissolution of all power. Excluding Caesarism and anarchism as extremes, it would be reasonable to try to specify more accurately the various shades of this range and their corresponding types, taking into account the degree of citizen participation both in the taking of decisions and in access to sources of information.

Conflictive eras encourage or perhaps even impose Caesarist forms of government, while times of concord facilitate the establishment of democratic-liberal governments, on the understanding, of course, that the latter do not necessarily involve the loss of all authority or amount to the same thing as the renunciation of any effective capacity to rule. At all events, the possible scenario of co-operative détente is not compatible with the justification and legitimacy of rigorous authoritarian States.

Really consolidated détente is bound to bring with it, as already stated, a lasting period of ideological "decentralization": a readying of the various countries, so to speak, for their capacity of choice and doctrinal preparation. This means the liberation from the imperious constraints of the two great ideological systems—already in *de facto* suspense since the reappearance of China—which are characterized not only by their polarized opposition to each other but also by their rigidly consistent nature which thus covers up all the alterations that have taken place in a reality which they claim to express faithfully. Ideological decentralization does not necessarily mean the end of ideology, since other different ideologies arise in response to the well-known reasons of justification

and legitimacy. It simply means the possible loss of validity of some traditional ideologies as monolithic bodies, already seriously fissured in any case by irreversible processes of historical change. On the other hand, such a state of ideological decentralization does not constitute a condition which is desirable in itself and is totally free of qualifications and of its own dangers and disadvantages. This is not the place for a detailed investigation of this point, however. We will content ourselves with pointing out that the void left by these ideologies could invite an improvised flowering of various ideological substitutes—this would not be the first time this has happened—and within a general atmosphere of understanding and goodwill for co-operation, this could give rise to limited circles of internal conflicts and discords. In the competitive scenario, this peril would undoubtedly be more serious. In the assumed scenario of co-operative détente and new creative freedom, however, the liberation from compulsory alignments would be a positive and helpful condition.

It would be encouraging, because in the various places in which it would continue to be necessary to have concern for development this would no longer be oriented by interested outside influences, by the emotional impulses of its mythical wrapping, by acquiescence in changing intellectual fashions, and still less by the ready-made ideologies which only stress the success supposed to have been obtained through them elsewhere. Instead, it would be oriented by the application of instrumental knowledge and the bare and unvarnished experience accumulated on both sides, sometimes ending in triumph and sometimes in painful failure. It is impossible to do without the example of what others have done, but this example should only be

viewed in the light of a careful analysis of one's own needs, which may be different from those which the others faced, and these needs must be so classified as regards their urgency that there is no possibility of mistake in making a choice between the options offered. Depending on the particular circumstances of each case, it may be best to follow the line of the accumulative growth of the product or select the line of dispensing with this so as to cover, with modest and equalitarian frugality, the most pressing needs of the masses, always provided that one or the other option, or various intermediate options, are really possible.

This is so because there is no unconditional freedom as regards the invention of new styles of development, either. The opportunity offered by the assumed new liberty only exists in a here and now whose historical nature places them beyond any arbitrary decision. The liberation from the compulsive force of the dominating ideologies of development does not mean liberation at the same time from the economic systems of which those ideologies form part, since inclusion in one of those systems is usually due to historical reasons, although these systems can to some extent be modified from within and adjusted to the prevailing social conditions —permanent interests in conflict— if we recognize them for what they are and not what we would like them to be. The so-called ideological decentralization assuredly will not mean a carnival-like invitation to give way to the incessant urge to make up new ideologies of development put forward as original, but rather an invitation to seek flexible, agile, and pragmatic economic policies capable of being adapted to the special circumstances of each country within the system which —to the pleasure of

some and the displeasure of others— it has fallen to their lot to live.

A scenario of co-operative détente is the prospective framework most favourable to the stimulation of the kind of intelligence suitable for the permanent adjustment of its own progress, partly chosen and partly imposed by necessity, and capable of bringing to the dramatic soil of its particular shortcomings —those which really exist and no others— the combination of means and ends most in keeping with the moral values held to be one's own. This is so even though one knows that one must sometimes accept the inconsistency between the demands of instrumental rationality and the demands of the material rationality of ends and values, which cannot be solved to the complete satisfaction of all. On the one hand there is flexibility and pragmatism, but there is also an escape from the fear of the taboo of reform: the taboo maintained by many in recent years through the existence of ideologies which have identical presumptions of absolute truth, thus consigning to oblivion everything that has been due in past history to the patient building up of successive timely reforms which, although they may themselves lack the luminous halo of the great radical formulas, capable of mobilizing great efforts, nevertheless do not have to be paid for with big doses of sacrifice and suffering.

The prospect of co-operative détente is therefore not just a mere opportunity for conservative action, but an opportunity for making the necessary changes with the effectiveness of intelligence rather than with the inevitable misfortune of emotional commitment. The fact that one ceases to worship the golden calf of the all-powerful indicator of gross income does not mean that it is no longer taken into account along with

other valid indexes and propositions of scientific reason, which is the most decisive instrument still available for successfully approaching a reality which is always elusive and is only partially covered by it.

As long as co-operative détente is consolidated or continues to exist, there are not only grounds for assuming that there will be an expansion of the universalist attitudes already mentioned, which favour the stability of the existing international organizations and the establishment of others as well as new world authorities, but also grounds for suspecting that there will be greater sensitivity to the demands for a single indivisible peace. A greater effort aimed at impeding or rapidly quelling localized conflicts is therefore to be expected, not only because of the fear of their repercussions on the other countries living in peaceful coexistence, i.e., the fear that they would spread, but because of a deep moral rejection of the ever-increasing toll of human lives sacrificed to no purpose, no matter how far they may still be from our own area.

The diplomatic activities now in progress —the signing of treaties and agreements, proposals for collaboration,

gestures of good will and mutual gratitude, etc. —and very particularly the diplomatic vocabulary in which they are translated constitute the outward signs of a climate of co-operative détente. This may seem tautological: it was certainly already contained in the earlier assertion, but what is important now is its instrumental character for the study. Those interested in prospective investigation must follow step by step the various shades of the vocabularies being used, which frequently denote in a subtle manner, through the words employed, more than is indicated by the actual facts and actions. Prospective studies must make use in this case of what used to be called years ago the technique of content analysis. For this reason, when it is possible to observe in this vocabulary terms which imply disagreement, displeasure, open menace or protest, etc., this means that we are already in a different atmosphere: that which prevails in the scenario with which we will deal next. For the moment, it is not possible to go any further than this allusion: only the accumulation of empirical studies, which we at present lack, could provide us with proof of the validity of the above proposition.

Competitive détente

In the projection of a scenario of competitive détente, the imagination scarcely needs any encouragement, since in principle such a scenario simply constitutes the prolongation of the circumstances which we are currently experiencing. Only in principle, however, because in view of the assumption that this scenario is in an intermediate stage

of the process of détente already outlined we must specify some of its particular features. Firstly, there is its inevitably greater mobility, and consequently its more accentuated instability. No historical situation is purely static —this would amount to a contradiction in terms— but the more intensive dynamism conceived as a feature of this

scenario is due to the tendency which it displays, as long as it lasts, to oscillate continually between the first and the third scenario, sometimes coming nearer and sometimes departing from what each of them represents. Thus, if we wanted to follow out in all its details what was implied in the metaphor taken from the theatre which inspires this terminology, we would be obliged to imagine a stage with rotating tableaux which appear in turn. In addition, however, the conceptual notes which define this scenario also stress its competitive nature and its gravitation towards the *status quo*. It must be understood that this type of détente will be competitive insofar as the conflicts and the tensions it contains are subject to or covered by—as in every competition—a certain minimum of common principles and aspirations, regardless of whether they stem from identical convictions or from parallel selfish interests. As long as these rules last, regardless of whether or not they are explicitly declared, the conflict and the struggle will be limited, although this does not mean that this limit can force its suppression; the suppression of the conflict would bring about agreement, which fundamentally typifies cooperative détente. Overstepping such limits, in contrast, would change the nature of the conflict from a relative one to an absolute conflict, a peril which is found in its full expression in the typical conflictive scenario. The movement of détente must consequently be manifested in the competitive scenario as a tendency to maintain the *status quo*, since the termination of that *status quo* would be equivalent to the liquidation of the scenario itself.

This greater possibility of imagining this scenario in its various components is not due only to the fact that it represents the continuation of the

present conditions which we are all experiencing more or less acutely, but due rather to the greater facility with which the list of its elements can be deduced: in reality, they merely amount to an inversion of the facilities and difficulties contained in the outline of the co-operative scenario. A desire to completely reorganize the present basis of peace would run into the difficulty of the inclination to insist on the continuance of the obstacles, and the old pattern of security-oriented policy with national sovereignty as its nucleus would tend to impose itself as a model over all others. The concessions made at any time, because of their transitory nature and the oscillating nature of the advances and setbacks experienced, promote anxiety or scepticism in the sensitive onlooker. Consequently, any serious effort to increase the effectiveness of the existing international organizations and to try to ensure that they offer greater guarantees of equity must be viewed as improbable, and even when they are not flatly rejected the proposals for new institutions and for the establishment of world authorities with the necessary competence for solving problems recognized as being common to all countries today will tend to be the subject of long-drawn out examination and discussion, thus giving rise to technically unnecessary confrontations.

It would appear to be difficult, in such circumstances, to discern any decided common will to put an end to the so-called localized conflicts between minor powers: possible wars because of long-standing quarrels or of other new disputes in which the big powers oppose each other through stand-ins. Thus, the maintenance of the insensitivity regarding the need for an indivisible peace will tend to do nothing to impede the sacrifice of numerous victims.

To sum up, and to finish with this first aspect, everything points to the predominance in such circumstances of a generalized apathy which will tend to reduce the possibility of an energetic common will capable of uniting all in a joint direct confrontation with the most decisive world problems in the future.

In the economic field, the persistence in their present form of the existing economic and political blocs will continue to keep down the size of the world market and reduce the possibilities of a new division of labour at that level, keeping the traditional forms of dependence virtually unchanged through various hindrances on any policy which, without aiming to eliminate such forms of dependence completely, nevertheless attempts to escape from domestic economic difficulties by making use of more or less extensive new trade opportunities in various markets. The same will tend to occur with possible diplomatic combinations desirous of reducing absorptive satellization. In this respect, a marked preference for the procedure of bilateral relations will try to mute the broader mechanism of multilaterality, which is more suitable and holds out greater advantages for the developing countries.

Insofar as the horizontal tension between the biggest and richest centres—the fundamental tension between East and West—remains unsolved, there can hardly be anything but an increase in the vertical tension between North and South, between the rich countries and the poorer countries, and this increase, apart from its undoubted gravity, may even be used as a form of diplomatic tactics in order to divert attention for some time from the more fundamental divergence of the great industrial systems. In the North-South dialogue there will no doubt be an effort to offer

concessions, provided these do not endanger the tacit common interests of the great centres. It is thus to be presumed that the countries which are less favoured in their development, faced with these unsatisfactory concessions, will tend to put forward exaggerated demands which are beyond any real possibility of fulfilment.

In a détente which is still competitive it may be conceived that the pull of the polarized ideologies will continue to exert some influence, although it will not retain the same capacity of attraction that it originally had. Perhaps for this very reason, an effort may be observed to fill up the most visible cracks in it with new shovelfuls of cement, even though this cannot prevent the repeated appearance of new heterodoxies which are all the less effective the greater is their internal improvisation and incoherence. In these conditions, the difficulties in working out well-articulated, flexible and readily adaptable economic policies favour the persistence in the plans of the majority of the countries of the contradiction which exists between the demands of the long-term goals and the pressing urgent needs of the shorter term. The lack of opportunities for effectively undertaking one or other of the pretended new styles of development will encourage rather than impede the flowering of ambitious projects in respect of a different economic order, which will retain the utopian tone so rightly described as being typical of all these products of groups and commissions.

In such confused circumstances, where there is continual oscillation in the orientations proposed, authoritarian-type governments can become the keynote in those countries which find it increasingly difficult to solve their domestic conflicts and contradictions, to

say nothing of those deriving from the international picture. Even in the traditional democracies which still exist —the only ones where these phenomena are within the scope of direct observation— it will not be difficult to find cases, as is already happening, of perilous swings of the pendulum from moments of general political apathy and lack of confidence in their own leaders to other moments when fear and insecurity about the maintenance of what has been achieved lead to nervous movements seeking energetic measures and to intolerant attitudes. These movements do not always coincide with the classical assumptions about the conduct of the various social classes.

The length of time that the present difficult situation can last within the

competitive scenario which we have just outlined is of course indeterminate, but it is nevertheless subject to certain limits. Its days would appear to be numbered in this respect, since if a supreme effort is not made by all countries —and not only by the bigger and more responsible powers— to achieve a climate of authentic co-operation in which the bases can be laid for the more stable peace which is of equal interest to all, it will not be possible to avert the fate of a dreadful catastrophe in any of its possible forms. In other words, if the most important pressures continue to drag on in the competitive scenario without being solved, they will break the dikes which still contain them and flow out, perhaps very suddenly, towards the last of the scenarios dealt with in our analytical scheme.

Conflictive détente

The essential nature of conflictive détente is amply conveyed by the adjective used. In this scenario, détente enters a definitive crisis, increasingly acute, which stops it short in its progress and destroys all possibility of reaching its goals. This term of conflictive détente does not refer so much to the existence of conflicts, which are always possible in any circumstances, but to the higher degree of its intensity, to the moment in which quantity is transformed into quality, once again giving the conflicts involved a total and absolute character. This is a change which renews the terror of past historical experiences.

Once again the biggest danger in this dead-end situation is that it will lead to a nuclear holocaust. It is a situation which

the experts say is quite possible if, in a confrontation of power relations, one of the three superpowers —the United States, the Soviet Union or China— feels that its survival is definitively menaced. Let us leave to these experts the precise analysis of the circumstances in question; it is sufficient for us to stress the horror of this desperate prospect.

Faced with this possibility, it would be necessary to try to renew the structure of the cold war, whose probability of dissolution as a form of lasting peace was the original reason for the effort to secure détente. In view of the different situation of power relations, however —not only because of the existence of China but also because of the appearance of other powers with

nuclear capacity— it is difficult to imagine how this situation could be maintained for as long as the previous one or to what moment of games theory the experts could resort in order to make this feasible. Would not this mean entering even further into the polar night of the soulless technicians which already tortured Max Weber many years ago?

Once the possibility of this prospect has been eliminated, there is nothing left in the conflictive scenario to fulfil the hopes of the human race. All that can be suggested comes entirely within the field of historical fiction, and unfortunately it involves more suppositions than such fiction, not less. Can we really be facing the possibility of the new Middle Ages to which we referred at the beginning of this paper? Can we really be on the threshold of this new neo-feudal society in which all peoples and all territories alike would end up as vassals of the technological concentrations, with their areas of indifference abandoned to the spontaneous and unordered settlement of their own conflicts, provided these did not menace the security and interests of the great “castles” and their powerful techno-structures? But however brilliant and sophisticated these constructors of historical fiction may be —and some of the aspects of their work should be taken with a grain of salt— their millenarian admonitions are no less gloomy than those which, by other means and with closer possibilities, fall without much effect on contemporary public opinion, in whose own experience they encounter the conditions for their possibility. Let us put an end, then, to the consideration of this possible horizon according to which, even if the possibility of survival is preserved, such survival will take place in conditions of unthinkable horror.

At all events, the analytical scheme of the possible forms of détente faces the various countries with an immediate future —in a mere matter of decades— which they cannot fail to consider with the greatest seriousness. At every moment, it opens up different opportunities or difficulties for their capacity of political and economic action, and it is desirable to get to know these alternatives for the future as well as possible through careful prospective study, if that capacity for action is to be successfully used. As in any futurological scheme, however, what is suggested only has the value of a project, a starting-point for a patient accumulation of empirical analyses of real tendencies which must be carried out simultaneously in the most diverse fields by different specialists capable of co-ordinating their work. Without this support in the form of concrete studies it is impossible to get away from what remains merely a speculative plan.

At present, there are germs of change everywhere, since the search for a new identity already referred to is not the exclusive preserve of the ruling powers. The smallest countries, too, are already striving to find this identity for themselves. Nor is there any shortage of intellectual efforts to put a little order and clarity into this field of future changes which are in progress. As the time available for this is shorter than might be thought, everything done from this point of view is of the greatest usefulness. Thus, a study which only came to our notice when we were writing this paper gives a very clear-cut framework for the execution of these prospective studies. In this study,

Marshall Wolfe¹ offers a rich panoramic synthesis of the realities of the present-day world which, although it stresses in particular the different conditions of the social structure, also constitutes a successful invitation to pursue this type of realistic approach, without which no prospective study is of any value.

V

Latin America's position in the conditions of détente

No great effort of imagination or analysis is needed to perceive the stage of painful uncertainty through which Latin America is passing because of the present oscillations in world policy, which are manifested in the changing aspects of the assumed process of détente and aggravated by the effects of an economic recession which affects each and every one of the countries equally. The subject of the present study makes it necessary, however, to leave aside the latter problem and deal directly with the various opportunities and obstacles facing the possible progress of détente, whether in the attempts to organize it, its achievement or its failure.

Although our interest is concentrated on Latin America, the examination of its situation would undoubtedly gain in depth and clarity if we could also carry out a general comparison with the problems of détente in other regions, or at least some groups of countries which show certain political, economic or social similarities with Latin America. In addition to bringing out the assumed similarities, this would also shed light on the different responses possibly needed

to the same challenge. Consideration could be given to the group of Arab countries, for example, or perhaps the South-West Asian region. There does not seem to be much doubt about the favourable effects for the immediate future of Latin America that an effective and durable consolidation of détente would have. The present oscillations give rise to a good many critical attitudes not only on the part of the ordinary citizen, but also of public opinion in general and of those responsible for policies and the economy.

Even in the unlikely event of unanimous recognition of the historical sense of détente, there could still be some doubt as to the capacity of the region or of its most important countries to exert a positive influence on the development of détente. In principle, the diplomatic action required does not appear to be an impossibility, provided it were not held back by the deeply-rooted traditions of many foreign ministries which are extremely conservative about the orientation of their action. It does not seem likely that the stimuli of a situation which really does call for the most decided contribution to the construction of a firm and equitable peace under a new world economic order would remain unheeded, however, above all if a cosmopolitan and globalizing

¹ M. Wolfe, "The concrete utopias and their confrontation with the world of today", CEPAL/DRAFT/DS/134, March 1976.

position takes the place of, or at least reduces, the traditional concerns dominated by security and by misgivings over sovereignty.

The theme of projective sociology consists fundamentally of making the intellectual effort to indicate the framework of the possible alternatives for effective action in this situation—that of détente moving towards a new structure of universal peace—with rigorous application of that category of objective possibility directed towards a clarification of the future instead of an interpretation of the past. Careful and empirical examination of the real tendencies existing at present, of the different combinations in which they can be intertwined, and of the foreseeable results constitute the methodological procedure that must be followed in seeking to define the objectively possible, although it is not always possible to achieve any guarantee of its probability. The prospective analysis on which this type of sociological research is based cannot go any further, even in the case of maximum success, than a sober indication of what we can do at a given moment—what can be done as an objective possibility—and it can never be expected to indicate what we ought to do, even assuming unconditional freedom of action. What can be done here and now in the light of the relatively foreseeable circumstances of tomorrow is the only thing that determines the subject of our interest and shapes the object of such a sociological orientation, which now assumes the form of an invitation against the undefined background of the situation of détente in which we find ourselves, for better or for worse, and from which the only thing definitively excluded is a purely passive resignation or an attitude of indifference. This is not the place, however, to

try to engage in an even relatively satisfactory elaboration of this type of sociology, since we do not have the time or the capacity for this, and we must confine ourselves to this statement of the declared conviction of its urgency, the call to embark upon an interdisciplinary task to be carried out by determined teams.

It is worth adding, however, that although it is quite true that scientific analysis in itself only enables one to seek what can be done, it does not prevent one from going beyond its frontiers and trying to indicate also what it would in any case be worth undertaking, since no-one can close his eyes to the fact that what it is worth trying to do, even if viewed as impossible, may give us in the future the conditions of possibility for what one could then do in reality. Interesting though this reflection is, however, we must return to the specific subject of this study. As we are trying to tackle the question of the situation of Latin America against the background of détente, it would appear that the easiest manner of advancing without running into obstacles would consist of particularizing with respect to our region the general assumptions included in each of the three previously designed scenarios which constitute, let us repeat, the possible framework of the experiences through which we seem obliged to pass, whatever happens, in the space of a few decades. This convenient procedure, however, would be similar in the final analysis to the frequent and evil practice of giving a description in words of a statistical table which is printed opposite the same text. The reader not only deserves to be spared such a duplication, but he also deserves to have a suitable field for stimulating mental exercise left to his personal capacity.

Still less would the author wish to repeat the opinions rightly or wrongly maintained by him in former works, and perhaps still relatively valid, which form the framework of this renewed attempt at an overall view. The only novelty that they offer is the extension of the old theme of the relations between power and development in the international field: a theme which appeared to be unavoidable after a long and winding road which started from a more limited consideration of "social aspects" of such economic development and ended with the examination of the various forms of planning and their linkage with the political systems.

The aim of avoiding monotonous repetitions and taking the easiest course still does not prevent us from running into very serious difficulties of conceptual articulation, both in the thinking itself and in its exposition. Facing up to such risks, and without abandoning at any time the purely exploratory and schematic nature of these lines, it seems advisable to stick to a few nuclei of very significant problems which have existed since the first instants of the birth of Latin American independence and can perhaps only be solved jointly and satisfactorily within the context of historic change promised by the era of détente. These three nuclei of questions

would be the following: that of the initial appearance of the so-called peripheral situation; that of the primary manifestation of a permanent contradiction between political ideas and the real conditions of the social structure, and that of the breaking up of a historic body which has kept on losing fragments ever since that time. Their presence at the present time —naturally modified and with varied shades of significance —determines the ambit of the decisive problems which Latin America can attempt to solve or at least set about trying to solve, taking advantage of the liberty of opportunities perhaps offered by a stabilized détente and the beginning through this of a new universal order. There is no need to say that the detailed consideration of these assumptions of the past and of the objective possibilities of their transformation would have to be based on an accumulation of historical knowledge which it is not feasible to establish at the present moment. Without this basis, there is the obvious danger that the propositions formulated would assume an apodictic complexion very far from our intention. But there is no other way but to face this risk in setting forth the main lines, since in any case the errors which may slip in are more stimulating than the false image of certainty that other conclusions of a deductive nature might give.

The periphery and the semi-periphery in the world economy

With the aim of interpreting certain current features of underdevelopment, a lively controversy arose a few years ago about the temporal ambit of capitalism and about whether or not, in certain

places, there were still survivals of the feudal state which had preceded it. There is not the slightest interest in engaging in this controversy yet again now and recognizing that some of the

protagonists in it were right, although this does not oblige us to accept all their conclusions. In this situation of urgency with which we are faced, it is preferable to replace the term "capitalism" with the term "market economy". It must be recognized in this respect that capitalism first came on the historical scene towards the end of the fifteenth century and is still in full operation, although it includes economic systems of various types or, rather, both industrial countries which are capitalist in the strict sense and also countries or States with a socialist form of organization. When, in the last years of the 1940s, a theory to explain the condition of underdevelopment of our countries was put forward, it brought out the distinction, long repeated and now known to all, between the centre and the periphery within the same inclusive system, i.e., the confrontation between the central countries and the peripheral countries. The fact of recalling this does not mean there is any desire to enter into a controversy about the validity of the interpretation underlying this separation, however. It played its part and it did so very effectively, inasmuch as it gave rise to the will to overcome the problem in question. With the passage of the years and from the historical point of view from which this study is being written, however, it has appeared advisable to add to this division into two parts a new element: that of the semi-peripheral countries or systems. In this sense, it may be affirmed that in the centuries of existence of the world capitalist market there have always been, side by side with a historically variable centre, various other historically varying countries, some of them semi-peripheral and others peripheral with respect to the centre.

With regard to Latin America and its relation in particular with the possible

situation of détente, we only need to bring out two points which should perhaps be stated right now despite the inconvenience of such advance treatment. The first of these refers to the fact of the general economic significance of the moment of Independence, while the second concerns the possibility of recognizing the present semi-peripheral nature of a few Latin American countries.

The first point can best be stated in the words of another writer, who said that the independence of the Latin American countries did nothing to change their peripheral status: it simply eliminated the last vestiges of the semi-peripheral role of Spain, finishing with some pockets of non-intervention in the world market in the interior of Latin America². It does not seem to us that the use of this very correct formula assumes or even has anything to do with the complete doctrinal acceptance of the study in which it occurs, despite the many valuable suggestions made in it. The general economic significance of the particular moment of Independence in history has been brought out quite clearly. Independence was not just the political breakup of an empire, but the transformation of an economic whole both in its totality and in each of its parts. This was an economic whole which already had a markedly semi-peripheral character with respect to the European centre: that is to say, it was a few steps behind the centre, but not very markedly so. Specifying exactly when and at what moment this condition arose (1648 with Westphalia or with the delay in the arrival of the Enlightenment, etc.) would simply lead us into inappropriate

²J. Wallestein, "The rise and future demise of the World Capitalist System", *Comparative Studies in Society and History*, Vol. 16, N° 4, 1974, p. 408.

historical digressions. The decisive factor is that the segmentation of a semi-peripheral whole as a result of Independence transferred all its parts into a definitely peripheral situation in which they remained, beginning with Spain itself, for over a century at the end of which time not only the latter country but also some of its former viceroyalties have now reached, with slight differences of time, the status of semi-peripheral countries (this description is also true, although not *mutatis mutandis*, of the Portuguese expansion: yet another of the constant differences between the Portuguese and Spanish worlds).

It is worth recalling that the situation of being a semi-peripheral country—unlike that of being on the periphery proper—has always meant being at a relatively smaller distance from the centre and in progress towards it, although the final step does not seem to be pre-determined by any historical law: that is to say, it does not constitute a necessary phase. It should be borne in mind, however, in this respect that in the middle of the era of industrial capitalism the enormous outward thrust of Germany and the United States was due to their skill in combining for their own political ends the capacity of both their peripheral and semi-peripheral internal regions. Let us leave the study in detail of this and similar phenomena to the economic historians, however.

Nor is it for us to describe the steps taken in Spain to bring the country out of the markedly peripheral situation with respect to the European centre into which it had sunk as a result of its complete severance from its overseas possessions. It cannot be ignored that in the midst of the political upheavals of the nineteenth century in Spain it could still fall back on some isolated areas of industrial activity which, with various

ups and downs, saved it from disaster. This is not the time to judge the relative importance of the various mechanisms which permitted it within a few decades to regain its semi-peripheral status, and still less to predict the possibilities of their continuing and the extent to which they will be capable of taking the next step. Its conditions have been quite different, of course, from those experienced by the Latin American countries in their long and still uncompleted efforts to emerge from the peripheral position in which they were placed by their definitive break with their colonial past.

The story of the adventures and misadventures of the new nations, abandoned in their far-off peripheral position since the beginning of the nineteenth century, has been told in recent times quite adequately and from various points of view. It is only because it now appears to us to be moving towards its conclusion that we feel that it is worth making a few rapid references to it before taking up once again the subject of our particular interest.

Those who still feel obliged to point to the structural heterogeneity of the region and of its various countries should remember how far off its beginnings were, since there was an immediate counterposition of the coastal cities—of a political-administrative nature but always enjoying a certain minimum level of modernity, by the standards of the times, as a result of the urging of the commercial strata—and the decisive nucleus formed in agriculture by the structure of the haciendas, which were only gradually converted—and even then not in every case—into enterprises. The structural heterogeneity is not the special result of an advanced phase of capitalism, as in the case of some Asian countries, which suggested to contempo-

rary economists the famous and unduly generalized theory of dualism. Nor can fundamental changes be seen if one only observes the type of world market now supplied with new exports, since the form of trade functioned in the same way in the mercantilist period as in that following the Manchester free-trade era. The only difference is that the latter helped to outline with lasting theoretical pretensions a form of international division of labour which some claim still exists today.

The only thing which has varied since then with the passage of time has been the various products which have served as a basis for the export economy, and this only interests strict economic history and in no way affects the fundamental structure of the countries. The resulting configuration was of countries which depended on the exterior in their economic life and were therefore subject to the changing fortunes of a market which was outside their control.

Within this general picture, however, a point of great importance was the succession which occurred in the main hegemonic centre —first England, then the United States, with their different styles of economic and above all financial activity. But the economic bloc to which countries inevitably had to belong, made up of the two countries in question plus the industrialized countries of Europe, has remained almost unchanged until today, and the picture of Latin America's trade relations has hardly been broadened by modern Japan and by the scanty and peculiar trade with the Socialist countries. The term of dependent semi-development used to refer to our countries is of course quite true, leaving aside its implicit critical content, and the whole thesis of dependence is no less free of any

controversial orientation. In order to be true, however, every critical attitude can do no less than make a historical-sociological analysis of the most unvarnished type in order to understand what really happened and indeed could not happen in any other way. Any other approach means giving oneself up to the kind of history-fiction about what might have happened if conditions had been different: an intellectual exercise which is no doubt interesting but lacks any interpretative value. No-one can seriously deny that once the Latin American countries had achieved relative maturity, they ceased to perceive all the perils of their economic structure. This is demonstrated by the fact that such perception imposed itself as an unavoidable necessity in the experimentation with new economic policies in the two periods when the phenomenon assumed an acute and almost compulsive form: i.e., during and immediately after the two World Wars.

Now the decisive point is that what seemed to the countries to be an obligatory attitude for survival was converted from 1945 onwards into a conscious and strenuous aspiration to find their possibilities of action on a justified theoretical basis.

The so-called developmentalism —a term which is sometimes used today in a pejorative sense— is the first generalized expression of a deliberate will of rebellion on the part of our countries with a view to overcoming their peripheral situation. It is quite unnecessary, of course, to recall the extremely well-known role played at that time by the ideas of CEPAL.

Once the policy of import substitution had been put into effect, some form or other of substitutive industrialization was initiated everywhere with greater or lesser success until its possibilities were

exhausted and the countries ran into the world recession. The twenty years between 1950 and 1970, which elapsed, it will be recalled, in the shade of the nuclear threat did not constitute for Latin America a *Belle Époque* similar to that enjoyed by the great industrial countries, but they did signify a period of general progress in more than one aspect. In the economic field, this progress can be measured by the well-known indexes of growth of average per capita income, despite the exceptions which of course appeared to be unsuspected. Alternatively, this progress can be represented by the figures for the total product or the increase in capital formation. Whichever of these is taken, it is evident that the changes were very great, and this is unjustly forgotten by some people.

The above should not be confused with an expression of triumph, however, for the price that had to be paid for the undeniable advance of the Latin American countries was the acceptance within the system of a concentrated form of growth which was manifested in the visible structural heterogeneity of its results. The question of up to what point such structural heterogeneity was not something common in the past and even the present economic structure of other countries, and the way in which it could be avoided, is something which falls outside both our competence and our present interest. Unfortunately, it is not possible to pass over such negative aspects with indifference, reflected as they are in marked differences in income distribution and in the employment structure: it was not possible to reduce them, as was hoped, through the various social policies, nor did they respond to the illusory hopes placed in the educational reforms which were actually carried out almost everywhere but

which, because of their orientation, produced unexpected negative and secondary effects. The deplorable fact of the "brain drain" brings out the considerable deployment of energy and intellectual capacity by our countries in past decades, which was less glorious in these results however, than a novelistic boom capable of crossing the frontiers of its own language.

All the foregoing purely allusive references were merely designed to lead up to what is now most important to us within our theme regarding the détente in world power relations, since at the end of the short period referred to we find that the group of Latin American countries, originally all placed in the same peripheral position at the moment of Independence, are tending to show considerable differences between each other because of the fact that some of them are reaching or already have reached the status of semi-peripheral countries with respect to the world market. Now, assuming of course that what was already stated regarding the relative attitude of indifference of the central countries with regard to the fate of the peripheral countries really takes place and the peripheral countries are thus left to their fate except in cases of flagrant misery or disaster, the question arises of what kind of future awaits the Latin American countries which are in this position, from the point of view of their development.

It has been pointed out that during the process of détente, and above all in the possibly longest period of its competitive scenario, the relations of the great centres with the other countries will differ depending on whether the latter are fairly large countries at an advanced stage of development, with sufficient resources and some capacity of organization, or small but rich countries

with strong negotiating power, or small or medium-sized poor countries which are obliged to continue in a markedly peripheral condition. Once the value of the ideological element has been reduced or has disappeared as an influence in the negotiations for aid and support of which they could previously take advantage, the situation of the peripheral countries proper will tend to get worse until such time as they can feel that they are protected by the institutional system of a new order of world peace.

In the circumstances just described, which, far from being purely imaginary, are based on amply objective assumptions, the prospective interest turns towards the possible attitudes of these new semi-peripheral countries —which make up what has been called by A. Pinto the “developed periphery”—with regard to the other more backward countries of the region. They can hardly be accused of narrow selfishness if they take advantage of the best opportunities for greater and more beneficial trade with the more economically and financially powerful central countries, just as they have already done through the various ways of initial substitutive industrialization, so that if political fortune accompanies their economic and social development they can enter in due course into similar relations —within their proportions of dependence, of course— to those at present prevailing between the various industrialized countries and the United States, for example. In the course of this expansion they will have better possibilities of overcoming the structural heterogeneity which still affects them and of reducing their pockets of poverty, perhaps more rapidly than older nations were able to do in the course of their evolution. The problem is not whether or not they seize the possibilities for progress which now

appear to be offered to them, but whether at the same time they maintain their interest in helping the weaker neighbours of the region and sharing with them the destiny of a community in which all were equal at the beginning. The breakdown of this equality, in each case as a result of different factors, undoubtedly burdens the semi-peripheral countries of Latin America with a serious responsibility which should be examined immediately.

The structural differences within individual countries have always existed, but only as a national problem which domestic policy had to face for reasons both of justice and security. The structural differences between different countries, on the other hand, still form an international question, albeit between closely related countries, and for this reason its solution is less clear. The great historical challenge for all the countries of Latin America, and more so for the semi-peripheral countries than for the rest of the peripheral countries which are not so well endowed with resources and have small domestic markets, is that they should be able to respond with energetic political will and institutional creativity, in the more complex conditions implied by the *détente* among the great powers, to the specially difficult situation created for the countries that are weaker in comparison with those which are progressing more strongly within the same area of culture and common interests. Will the more responsible countries of Latin America be capable of giving a lesson to the rest of the world? To put the same question less arrogantly, will they be able, through the example of their own intra-zonal and in the last analysis international relations, to contribute to the great reform of the world market and world power relations by freeing them from the law of the

jungle to which they have been subject for centuries? Are there sufficient indications that they are disposed to undertake this task, beginning with themselves and, while not displaying unthinkable altruism, of course, nevertheless showing a sincere concern for the fate of others?

The diffusion of ideological perplexities

Another essential note of the constellation of events which affected Latin America at the time of its Independence and which not only continues to exert influence now but will also certainly do so in the region's future destiny—perhaps even more acutely in coming decades—is the contradiction, which can hardly be expressed briefly in a few instants, between the political ideals proclaimed and the actual conditions of their possibility, i.e., a continually renewed lack of agreement between ideology and practice, or, expressed with greater analytical precision, a permanent maladjustment between economic rationality and political rationality. This is a theme which, even isolated from any form of context, could hardly be exhausted in a few pages and which now arises in an extreme form and with some degree of dramatism in view of the prospect of the assumed *détente* which, it is held, will sooner or later bring about a crisis in the ideologies imposed on the world during the last few decades. This is a crisis which hardly any of the big countries will be able to avoid, involved as they are in trying to outline the identity with which they are to face the future: a search which also drags along with it the smaller powers and among them naturally Latin America as a whole.

Of course this question can only be examined schematically. Even so,

however, it would be completely pointless if we did not recall—accepting them at least provisionally—some of the assumptions of a prospective nature already mentioned: firstly, the loss of value of the traditional ideologies as instruments of political and economic negotiation; secondly, the appearance as a consequence of this in the formation of other ideologies of an autonomous ambit, the so-called ideological decentralization; thirdly, the more direct manifestation of this process in the doctrines on development, i.e., the fact that its first prey will be the very idea of development prevailing so far; fourthly, the greater significance of the political ideologies as a result of the general search for new identities, i.e., for one's own politico-cultural personality, and finally, the equivocal nature of the assumed ideological decentralization because it is not in itself an unmixed blessing, since in addition to its liberating opportunity it also contains the possibility of being an eventual source of numerous conflicts.

Let us return, however, to what comes next in our historical thread, without feeling obliged to engage in the systematic application of the above assumptions.

The starting-point, let us repeat, can be formulated in just a few words: liberalism is the founding ideology of Latin America and has had such force

that it still remains, even though only in the form of an unsuccessful aspiration. Obviously, in this case the term liberalism must be understood not so much as a definite political or economic doctrine —both of which have existed in the past— but as an attitude to mankind, as a conception of personal disposition.

In the early years of our nationhood, liberalism was not only a first and perfectly understandable “anti”, but also a politico-economic concept matured in the vigorous enlightened meetings of the later eighteenth century in Latin America, which represented the culmination of the oldest and most lasting spiritual tradition of the West. There is no need to repeat yet again what everyone knows. In its capacity as a weapon of the civil insurgent revolution, however, it needed to take shape immediately as an institutional organization, beginning naturally with the most important thing: the political constitution as a fundamental code. The content of the constitution and of the legislation derived from it fitted only with difficulty into the social structure which it aimed to regulate and from which it must receive continued support, however. This structure was as historic a product as that of the enlightened urban intellectual strata themselves, and it showed an agrarian type of organization which was the result of slow penetration into the sparsely populated interior. The contradiction between the system of political ideas and the social reality was bound to become obvious immediately; the different forms that it took according to the different countries and moments constitute the backbone of the interpretation of our history up till today. No attempt will be made to repeat it now in all its shades and variations. The impulse towards political rationality breaks down for the first time because of its abstract

character compared with the progress of economic rationality, which is the only one possible for a long period. There have been moments, however, according to the varying fortunes of the countries, when it has appeared that a conciliation has been reached in the eyes of the opposed interests, as in the political outlet of the traditional two-party Liberal and Conservative system (with different names in different countries). On the one hand, this conciliation was a consequence of the electoral systems, which were at once satisfactory to the Liberal conscience and useful to Conservative interests. On the other hand, it was also the result of the nature of the parties themselves as a conglomeration of notables who belonged by birth or assimilation to the same social class and were often also related to each other. Fundamentally, what permitted this apparent conciliation was the fact that the political system so constituted represented, without any conscious striving after this, the only possible expression of a basically outward-oriented economy. It was thus able to persist in a large number of countries, in spite of all the difficulties, until —when the prolongation of the nineteenth century into the following century came to an end with the First World War— it became increasingly difficult to keep such an economic system alive. Now, when the decided turn in favour of an inward-oriented economy became evident, the prevailing political régime had scarcely changed in its structure and had remained fossilized in a two-party system which was completely foreign to a definitively changed social and economic reality. A detailed history of this would no doubt bring out the diversity of the shades involved and of the exceptional efforts made in some countries, but it would not modify the

analytical scheme which is now accepted.

When the idea of development is disseminated as a conscious aspiration and as a programme, the "developmentalism" thus created finds itself without a fit and proper political strategy. Once more the instrumental reason of the economy comes to the fore. To tell the truth, developmentalism carried implicit within it concrete political orientations, at least in the spirit of the first generation, although understandably these were not declared in an explicit and well-defined manner. The economic view of developmentalism required certain very precise assumptions regarding the type of State in whose territorial dominions the proposed development would be carried out. It was either openly declared or left as an implicit assumption that what was needed was a State capable of broadening the field of its competence and willing at the same time to be not only a regulator of economic activity but also a participant in such activity and even, when necessary, a subject of it in its capacity as an entrepreneur. In brief, the image of a mixed economy with a strong public sector corresponded exactly with the view of developmentalism. As it was never entirely blind to the diversity of social interests, however, the same State had also to be, to a greater or lesser extent, a benefactor, a welfare state, although on a modest scale in its initial pretensions. The States which actually existed at that time, however, lacked the necessary capacity and the appropriate institutional organization (with a few exceptions, of course).

On the other hand, the developmentalist inspiration could hardly fail to take into account also the specific action of the so-called middle classes, whose existence in the desired form is a

problem that is still being debated. What is certain is that it was never thought that those classes and their accompanying entrepreneurial attitudes should be a mere carbon copy of what was represented by the nineteenth century bourgeoisie in the developed countries, but this did not mean that the concern to find the motive elements—classes, groups and individuals—for economic growth based on industrialization was incorrect for this reason. Where were its social supports to be found? It may be that these were lacking, just as the administrative capacity of the State for supporting this task was lacking, but the subsequent criticisms of a supposed "national bourgeoisie", very similar to the stereotype cast in the previous century, do not seem convincing in view of the possibility—which indeed has actually occurred—that there were entrepreneurial types of another character which were relatively indifferent, in their technocratic approach, to the political concerns of their predecessors in economic history. But this is not the place to re-open this discussion.

Be that as it may, the basic fact is that in the moment of initial developmentalism it was bound to run once again into the inveterate contradiction between the political constitution and the socio-economic structure.

Nothing is more striking in this respect than the role which the idea of planning had to play when it was finally able to free itself from its first wrappings as "programming". The planning bodies, whatever the name given to them, appeared everywhere as technocratic-looking spare wheels which did not fit in anywhere in the prevailing institutional system. This does not signify the least criticism of their work, of course, but in this almost phantasmal character they not only were unable to link up securely

and efficiently with the prevailing administrative organization but were even less able to do so with the political system as a whole. Where the representative régime remained, there was no manner of achieving a clear linkage with the system of parties or with the parliamentary mechanism. The parties offered neither clear positions as regards economic development nor well-defined programmes choosing between the various options. Consequently, the parliamentary activity failed to deal with questions of economic policy in the rigorous and scientifically based debates required for this. The two sets of options, that of political representation and that of economic planning, each went their own way. The excuse or consolation that an institutional arrangement such as that indicated between the representative system and the planning system scarcely existed either in the democratic industrial countries which served as a model (except in the case of the French efforts) cannot absolve our region from its responsibility for failing to try to solve with any degree of originality the persistent contradiction between instrumental or technical reasoning and the broader demands of political reasons. There can therefore be little surprise that the first of these went its own way, with unexpected results.

Just as happened with regard to the middle classes or middle strata, a discussion has been going on for a number of years about an assumed link between "scientific developmentalism" and political populism. There can be no doubt that the connexion appears to be quite clear. It can be objected, however, as some people have done, that developmentalism and populism have really been two sides of the same coin. When looked at more closely, both appear as adverse and mutually incompatible orientations:

one more example of the lasting contradiction referred to so many times.

It seems obvious that populism is a residue of the original liberal aspiration, expressed in this case with new and old "antis", but in its economic aspect it never advanced beyond the stage of being merely a first vague sketch—among many others—of an ideology of development.

The essential characteristic of populism, as far as sociological analysis is concerned, is not so much its doctrine as the fact that everywhere it involved a régime of clientage, although it cannot be claimed that this clientage was exclusively a political weakness of Latin America, since it had already had a long prior history in the Mediterranean area (there are cases which have been closely studied, using such nomenclature, in Greece and Southern Italy, but these examples can also be extended to other countries of the area). Now, the régime of clientage is the typical political expression of situations of limited development put forward in democratic guise. By this very fact, however, they always constituted in their functioning, obscuring their political successes, a decisive obstacle to the installation of an authentic democracy and an efficient process of economic expansion, since the régime of clientage, although never claiming to be so, was at all times a serious hindrance to the normal functioning of both a rational State—of law and impersonal bureaucracy—and of economic enterprises of the same type. In the economic field, it is sufficient to recall its general propensity to place aspects of consumption before productive requirements. In this sense, the pretended bracketing of populism with developmentalism was from every point of view an unfortunate move.

In view of the conflict of interests necessarily brought about by the action of development, which development itself was not capable of resolving in the short time available to it without the aid of suitable political activity capable of continuous commitments only provisionally acceptable from stage to stage and in any case prevented by the persistent institutional instability, the final resort in the face of these difficulties was always the perhaps inevitable authoritarian solution. This is a resort which, even in the event of success, does not establish a lasting agreement between political rationality and the economy and indeed tends to display in itself, in all its various manifestations, the continuity of the contradiction which goes beyond any historical judgement.

We have already noted earlier the futurological forecast regarding the reduction of the influence of the dominant ideologies as a consequence of détente, which is expected to begin to manifest itself in the intermediate, oscillating stage of the competitive scenario, without any need to wait for the final achievement of détente. This reduction or loosening in no way signifies the elimination of all ideological rivalry, however. On the contrary, the general spread of a state of perplexity in this field seems to be a circumstance through which a considerable number of societies will have to pass, possibly for some time: a state of perplexity which Latin America has certainly already experienced in recent years because of the generation gap in its circles of intellectuals and rulers. The phenomenon has been generalized, and it will be taken up by the history of ideas at the right moment, but it also offers the fascinating feature of appearing in its most marked form precisely in places whose distance and isolation would give

grounds for suspecting them of being closed to the winds of change from the exterior. It is therefore not necessary to wait for the moment of the assumed "ideological decentralization" to know this experience for the first time. The economic development of Latin America took place within a system which naturally imposed its own style everywhere, and in contrast the pretensions of the opposed style should have been the dominant option in the logical structure of the cold war. So they were, to a good extent, but this did not mean that they were not accompanied by their own heterodoxies and by the remnants of other old ideologies of the region, such as anarcho-syndicalism. Something similar took place on the right, although in a more concealed form. But at the beginning of the assumed process of détente, the economic and social experience of the Chinese Revolution began to gain influence, in its dual aspect, side by side with the Soviet model. In principle, these will be the stimuli of ideas which will continue to act when the awaited moment of the ideological "decentralization" or autonomy arrives, once the polarized counterposition of the ideological systems which have so far been dominant is broken. Those interested in forecasting must, of course, set out from these bases.

As regards the concept of development itself, the crisis through which it is passing is not a novelty either if such development is understood as a pure mechanism of incessant economic growth measured by the rates achieved year by year. To tell the truth, the much-reviled "initial developmentalism" cannot be accused of showing blindness or short-sightedness in this respect: from the very beginning there was an awareness that development is also something else, although the elaboration of this

aspect frequently figures as a mere appendix or sometimes a mere decorative ritual. At all events, however, it was always present. In years gone by, the intellectual leaning towards an excessively narrow economic view has been observed in the most diverse places, whether as immanent realistic criticism or in the form of more or less utopian proposals. This does not mean, however, that economic growth in itself is a complete error and that the calculations of its possibility can cheerfully be thrown overboard like any other kind of rebellion against the principles of formal rationality of economic science. In this sense it is not very probable that the suggestions of "another kind of development" —whatever the moral motivations behind them— will produce any immediate sharp changes of orientation, at any rate in Latin America. Although there is full agreement about the deplorable effects of the "consumer society" it is unlikely that it would be possible to cut off at one fell swoop the expectations that this still arouses in many countries which, because of their less privileged position, are anxious to possess goods which are considered completely usual in other countries: a desire stimulated by the "demonstration effects" of a culture to which Latin America inevitably belongs by historical tradition and geographical contiguity. Of course it seems certain that there is every day greater understanding that the satisfaction of such aspirations should be preceded as far as possible by the fulfilment of the primary and elementary needs of the most under-privileged sectors of the population. This is a task which is in no way impossible under the present system, although it is difficult to achieve unless, through reforms from within, it is possible to find the necessary compensatory mechanisms. It

is simply a question of looking for these really seriously.

The moment of "ideological decentralization" assumes that possible circumstance of détente in which the two pillars of the opposing doctrines lose their dogmatic rigidity not only as a result of their respective internal tendencies towards change, but also because of the fact that in the new perspectives of power relations they cease to be the instrument of negotiation and compromise, of support and aid, which the minor powers were forced to accept regardless of whether they were in the orbit of the great powers as satellites or as allies. There can be no doubt that some will consider such a condition unlikely, but what is really of interest in any attempt at forecasting is not so much mere appearances as what may be contained in the empirical analysis of the actual tendencies which are perhaps in progress, despite their oscillations and lags. What is important in such a case is to forecast also with some foundation of objective possibility what the predominating response may be in Latin America. It may happen that these circumstances of liberation may encourage a return to a kind of ideological witches' sabbath in the region or, on the contrary and more likely, they may give a stimulus, through the "breaking of the straitjackets of all the ideologies", to the beginning of an era of flexible policies marked by a will to maintain permanent adjustment to the expectations offered by a changing reality.

As long as the background of competitive détente lasts, the play of external influences will be approximately the same as at present. It should not be forgotten, however, that it was forecast that at a stage of relative maturity of détente all the interested powers will set out enthusiastically in

search of their new identity or image —this has already manifestly begun— and that Latin America, necessarily involved in the same process, will be bound to be singularly sensitive to what happens in the countries in the same historical vein as it, although at the same time there will still be other influences at work which are more difficult to define because of the internal reasons for their formation in the countries or cultures from which they stem.

In such a situation, the decisive query once again concerns the persistence of the original contradiction between political reasons and economic and instrumental reasons. Will Latin America be capable of putting an end to this old contradiction when it finds its new identity and finally reconciling in this affirmation of its personality both its economic requirements and the stabilization of its political institutions?

Concerning the assumed existence of a Latin American community

The last point in the various considerations drawn together in these pages also refers to the historical significance of the moment of Independence. In this case it does not concern a new and distinct attribute or keynote, however, but its very substance. Independence naturally conveys the idea, on its political surface, of the definitive cutting off of a colonial relationship lasting three centuries, but it also implies at the same time in its deeper sociological sense the breaking up of a historic body which, in spite of its geographical extension, kept its various parts more or less integrated. What is of importance to us now is the immediate result of this division and the consequences of the way in which it took place. The separation left the North American area intact, but in the southern part of the hemisphere it broke it up, in contrast, into numerous pieces. As a result, we have on the one hand, in terms which were first of all literary but today are in popular use, the United States of America, and on the other hand the disunited States of South America. Consequently, the trauma

caused by the breaking up of a historic body is more serious among us and remains in evidence even today both in the difficult and equivocal relations of the various parts with the old centre and in the unsatisfied longing for their reunification with each other. Since the beginning, this longing has taken the form of doctrinal declarations which no one denies but which no one tries to comply with either. It therefore persists simply as an ideal and as solemn rhetoric.

Now, both the writer and the reader can hardly fail to have realized immediately the equivocity of the description given, since what appears in its broad lines is really the decomposition —no other term is possible— of the great historic Spanish body. In no way is it a question of the breaking up of a broader totality of a similar nature which, because of its different origins, never existed in history. Brazil also separated from Portugal, but it maintained itself as another politically intact geographical area having nothing to do with the fragmentation of the historic Spanish-

speaking body. For this reason, the disunited States of South America would have become such even if the fragmentation of the Hispanic body had not taken place in the way in which it did. In this sense, it can be maintained that we are faced once again with an essential and decisive note of the constitution which was created at the moment of Independence and continues to exert its influence right up to the present. This is a note which cannot be forgotten or put on one side when we are dealing with an aspect of the theme which is peculiar to these pages: that of the role of the pretended Latin American community in the circumstances of an assumed world *détente*. To what extent can the real existence of such a community be affirmed?

The theme finally comes to be presented in this manner by virtue of a number of complicated historical chances. The most important thing in this respect, however, is that this new presentation is being made now for economic reasons, since from 1945 onwards the objectives of development became the predominant problem of the whole region. The question assumes this character not only by virtue of its intrinsic importance, but also because of the fact that its consideration and study include and concentrate many other questions which up to the present seemed to be distant and isolated compared with the concerns of politicians and intellectuals. The theme of integration—that of the reunification of the lost whole—is one of those covered by the new conception of economic development. It could therefore be stated, at the moment of such enlightenment, that the problem of seeking a supra-national form of organization of Latin America consisted basically in the fact that it arose at a time when in many

cases the implied national integration was still not complete.

Now, after quite a few years of progress, the problem no longer arises in the same form. With regard to the immediate future, it consists of determining as correctly as possible the set of facilities and difficulties presented, against the background of *détente*, in the search for a full or partial regionalization of Latin America which will permit it to act as a single body in the world, first economically and eventually politically. What are the favourable or adverse aspects in the task of setting afoot a Latin American community? Is regionalization the best solution to deal with the economic problems being faced? In what sense is regionalization also a political requirement? All these queries arise within the much broader framework of the assumed *détente* and its consequences: a new world system of peace and of economic order.

Let us very briefly compare the conditions in which the European Economic Community was set up with those which may make possible a similar attempt in Latin America. On the whole the Latin American conditions do not seem to be inferior; specifically, however, some are apparently more favourable and others obviously unfavourable at the present time or in a situation which prolongs the present state of affairs without substantial changes (an excessively long and oscillating process of *détente*, to say nothing of possible failure). Here is an outline picture.

We must not fail to mention what appears as an advantage for Latin America in this comparison: namely, the region's linguistic unity (or near-unity, taking Portuguese into account) and the support provided by many cultural traditions which are common to all the

countries or very similar in them. This is a topic to which all speeches made on solemn occasions refer, of course, and it would be worth examining in greater detail if this were the time to do so, for all topics rise up like a challenge as regards what they may contain or lack that is reasonable. In the present case, we need make only two small observations. One is limited to recalling that the problem in question is primarily one of organization, where, if necessary, any "lingua franca" could serve as an instrument and it is not necessary to base the whole matter—as in such questions as national integration—on assumed cultural identities. All this must be accepted with a grain of salt, in order to avoid unlimited digressions. The other observation is more decisive and does not bring with it the peril of new temptations to go into digressions. The veriest tyro in sociological theory knows or ought to know that community of languages and even of culture does not necessarily mean that it is accompanied by the tendencies or the operative forces capable of culminating without other help in a different type of "communization". It does, however, undoubtedly contain some favourable conditions of possibility, that is to say, features which are obviously favourable provided they are made use of along with other means such as political will or an efficient capacity of institutional creation. Let us now leave this old topic, however, although it is not without a certain mythical and emotional force.

The European Economic Community was attempted and achieved after a war which represented the second attempt at suicide by the old world. The antagonisms which repeated among Nation-States the tragic episode of the no less annihilatory quarrels among City-States in the times of the Greeks

were in no way the tensions of a recent past. It is necessary to go back to the times of the Carolingian Empire to follow step by step the series of struggles between the great nations of Europe which were doomed to culminate in two successive universal conflicts. Nevertheless, a moment came—between the two most determined opponents in this painful story—in which it proved possible to make a clear turn of 180 degrees. The fact that this took place perhaps because of the instinct of survival in the face of serious menaces rather than because of a sincere act of contrition does not in the least diminish its value as a triumph of responsible intelligence over passion. Nor is this triumph reduced by the fact that it was sustained from the outside. The capacity of invention and the courage of the men who set afoot the idea of the Community is something which cannot be adversely affected by those who subsequently emulated them.

Nobody can pretend that Latin American history is an impeccable model compared with the European example and can be consequently described as though it had been a paradise of peaceful co-existence among the various countries in the region. There have been conflicts and oppositions between them at all scales of gravity, even up to full-scale war. To ignore this fact now would be as wrong as it would be unnecessary. These conflicts left behind them scars which remain in history books and in the tacit orientations of foreign ministries. Even the greatest pessimist could not convince us, however, that such tensions existed so intensely and so repeatedly as in Europe. The cases of "revanchism" or "irredentism" are exceptional and very difficult to find. The quarrels which still exist can be solved with goodwill through the usual diplomatic channels,

as has happened on various occasions. And although the passage of time has stimulated the deliberate accentuation of national forms and a curious alternation, unstable for this very reason, in the efforts by certain States at leadership, neither of these constitutes a definitive impediment to a will to reach agreement on many questions. In short, on the political side the possibilities of a total or partial Latin American community of the European type encounter more facilities than obstacles.

In contrast, it is in the strictly economic field that the disadvantages weigh against such a community, unlike the European case. The European Economic Community —so far it has not extended beyond that region— was established between countries of advanced industrial development which were at relatively close levels to each other. In other words, it took place between societies of marked structural homogeneity, if we leave aside the agricultural differences, which have given rise to laboriously concluded agreements that have continually had to be reviewed because of their precarious and circumstantial nature. The decisive factor has always lain in the industrial field and in the vigorous mutual trade. In Latin America, in contrast, not only is the level of industrial progress nowhere near so high, but instead of the European structural homogeneity there is the well-known Latin American heterogeneity, not only between the different nations, but even within each of them. Let us recall in passing that the nucleus of the European Community lay in the apparently more modest Coal and Steel Community. And although history neither requires nor permits literal repetitions, this fact gives a concrete example of what is demanded of the capacity for institutional inventiveness.

Finally, as everyone knows, the idea of the European Economic Community enjoyed from the beginning the stimulus and decided support of the United States, which was then at the highest point of its hegemonic power in the West.

To sum up this brief comparative picture of the favourable and unfavourable elements in the respective situations of Europe and Latin America, it does not appear that there is any really insuperable and definitive obstacle in the latter case. The region's conditions are undoubtedly more difficult, but it can take advantage immediately of the obviously favourable ones while it learns, both from its own by no means insignificant experience and from that of others, what needs to be done to overcome through inevitably laborious efforts the features which appear to be adverse or less favourable. This minimal comparative exercise, of course, in no way reduces the need to persevere with the decisions already taken, whose broadening is a clear historical requirement.

In effect, regionalization appears to be —in its economic content, of course— the most suitable way of solving many of the problems of Latin America as a whole. The only immediate question raised by it is that of determining the manner in which it should be carried out, its dimensions and the instruments that can be used. It is also necessary, of course, that it should be possible to specify at the same time the conditions of its possibility not only at the present moment but also in the light of the various backgrounds and scenarios of the assumed détente, whether in its present fluctuations, in its stabilized situation or in its frightening breakdown. In the last case, of course, every forecast would necessarily be a sombre one.

From now on it will be necessary to go close to the limit of what it is permissible to deal with in this study, since a good deal of what remains to be considered concerns technical questions which are beyond our competence or involve a particularization of the general ideas expressed earlier whose repetition should be avoided as undesirable. Finally, it should not be forgotten that this study did not pretend to do anything else but formulate, as a programme, a compressed outline of the object and frame of reference of an essay in projective sociology.

Without pretending that this is a unanimous view, it would appear that at least the majority of economists feel that Latin America at present shows a series of common and fundamental economic problems—apart from those peculiar to each of the countries—which suggest that it would be desirable and even essential to find solutions of a collective nature to them. On the one hand there is the need to go past the phase of substitutive industrialization which has already been completed as a whole and advance beyond the limits which have been encountered, thus solving the “great backwardness of some dynamic sectors” which require an expansion of their market in various ways, many to some extent mutually incompatible. On the other hand, there is the question of the persistence of the old problem of external strangulation, which is the cause of intolerable indebtedness in the majority of the countries and continues as a tenacious challenge to the capacity of invention or discovery of financial instruments—in addition to those which already exist—for promoting the most suitable satisfaction of investment needs and of the acute problems of the balance of payments, regarding which it is rightly said that it is urgent to establish a timely

“safety net” capable of coping with possible balance-of-payments crises. Finally there is the persistent lag in technological instrumentality due to the difficulty, even in the economically most advanced countries, of establishing unaided, in an independent and separate manner, the bases needed for scientific research and for the technical use of the results thus obtained. The tremendous costs involved in pure and applied research activities are beyond the financial possibilities of any of the individual countries today.

It is only fair, however, on the other hand, to acknowledge the notable progress made by the region, in spite of these problems, in its productive capacity and in its “increasing significance as an importer from the central countries”. In both cases—that of the problems and that of the advances made—it seems inevitable to take the path of regionalization, or rather, the various possible paths available for joint action. Now, to what extent do the real assumptions needed to warrant this step exist? We must therefore add a few more words to the foregoing reflections.

Nobody who is interested in these questions can fail to take account today, in any broad political-economic view, of the very acute statements made by H. Jaguaribe, although obviously it is not necessary to follow him completely in all his conclusions.³ Let us now examine the points of coincidence between these views and some of the concepts already put forward in this study which, because we were following different lines of thinking, came out separately at various points.

³ H. Jaguaribe, “El Brasil y la América Latina”, *Estudios Internacionales*, Volume VIII, Nº 29.

The distinction between countries which are economically peripheral and others which are semi-peripheral with respect to the world market and the great industrial centres—a complementary distinction, made necessary by the passage of time, to the classic dichotomy established by CEPAL—does not cover all cases, because the division between viable and non-viable countries, which is perhaps implacable in its literal tenor, is not purely economic. This distinction and the smoothing down of its rough edges, of course, obviously signifies that some countries, because of their economic structure and size of market, can hardly escape unaided from their peripheral state, whatever their degree of political consensus and the capacity of their leaders and intellectual élites, while other countries in a semi-peripheral state, with bigger markets, more resources and a relatively higher degree of industrial development, could continue their own independent way if they so desire, thus managing sooner or later, if conditions are favourable, to achieve a position equivalent to that of other States which no-one considers underdeveloped. The unavoidable problem lies in knowing whether everything in this approach—which is not incompatible with that of joint action—would be favourable, and if such countries can free themselves from the repercussions which the fate of their peripheral neighbours would tend to have on them. Moreover, this is to say nothing of the awareness of moral and political responsibility aroused by their own privileged state in respect to the less fortunate fragments of the historic body of which they once formed part and which it may be possible to reconstruct in the future.

In the foregoing examination of this historic body, as regards its past and present form and the process of its

break-up, it was unthinkable not to refer—in passing and without any deliberate intent—to the special position occupied by Brazil at the moment when Independence took place. This special position persists today and therefore makes it impossible to ignore the reasons for Brazil's ambiguity with respect to the rest of Latin America, as so truly analysed by a citizen of that country. It might therefore appear, in that case, and for those reasons, that the reconstitution of the great historic body which was broken up at Independence could only take place in a piecemeal manner because of historical influences and language differences. It can be assumed, however, that the suppositions of objective causality underlying the regionalization approach are not in principle any different for Brazil than for the other countries which are also in a semi-peripheral position or in one close to it.

As the statement now being commented upon points out, the decisive question would consequently be that of clearly determining the present limits and the most suitable instruments for achieving one or another form of regionalization. If this is not achieved, then whatever the conditions in the near future in the hemisphere and in the world, the Latin American countries would be an easy target for the age-old game of "divide and rule", especially if their foreign ministries continue to stick to their traditional inclination for policies of security and are not capable of complementing them—there can as yet be no question of eliminating them completely—with the emerging example of an international policy of well-being. Only under this latter policy is it possible to begin the suggested gradual replacement of the foreign transnational corporations with others which are completely Latin American, or at least

to secure a balanced presence of both types of corporations, as a more realistic projection seems to make advisable.

In the intellectual debates which preceded the organization of the peace after the last war, one of the most useful concepts then formulated was that of the functional federations for well-defined limited purposes, as against the dreams of broader federations which were impossible both then and now. Such terminology has been gradually disappearing, and it is hardly to be found today at all. Even so, the original concept still preserves its instrumental fertility, since it refers to agreements or facts on strictly defined objectives which leave intact the countries' full autonomy regarding other matters (the word sovereignty was used then and can still be repeated today). In our region, the clearest example of this possibility is to be found in the field of scientific and technological research, although this does not mean that we should limit its application solely to this field, since the principle of functional federations for limited purposes can be extended to other objectives of an economic and social nature. Governmental agreements of this type, once more made a subject of general interest by the contemporary concern with the so-called transnational relationships, offer the great advantage of being capable of various overlappings and interconnexions. That is to say, agreements of this kind are not in principle mutually incompatible. Consequently, their final linking together, no matter how difficult it may be, can cover areas of very extensive content and with different participants.

It must not necessarily be assumed that the intellectual inspirers of the Andean Pact had that far-off concept of limited federations for limited purposes in mind, but it must be acknowledged

that in reality the Andean Pact does incorporate this concept in the most felicitous manner. In this sense the Andean Pact—whatever its immediate variants—is a clear example of what can be achieved by effective institutional inventiveness aimed fundamentally at three clearly delimited purposes: the expansion of a market, the stimulation of planned industrialization, and the indispensable aid to the comparatively less favoured countries. It is an effective example of a federation for limited objectives whose existence does not exclude the possibility of the establishment of other similar federations nor prevents any form of mutual overlapping which it might be desirable to have along with such delimitation.

Is this the only possible form of so-called joint action which is not incompatible with the parallel exercise of separate lives? Obviously not. But even recognizing the possibilities of its expansion—a total agreement on all the most decisive problems taken together, for example—we are still far from the lasting “romantic aspirations” to integral regionalization. In other words, we are still far from the impulses towards the full reconstruction of the old historical body, fatally broken up in the double sense by the contingencies of past events.

Now, although we have discussed our subject with a minimum of digressions it must still be acknowledged that these few reflections leave untouched our real specific subject. What are the conditions of possibility of such a regionalization at various levels of amplitude, assuming that there is a *détente* which, in the most likely of its scenarios, scarcely modifies the present circumstances? In such a case should we expect something positive from external stimulus or only, in contrast, hindrances and difficulties?

From the economic bloc in which the region is inserted, it is not possible to expect any special interest in its favour other than the normal self-interested desire for an increase in traditional trade relations, without much interest in who it is who actually carries them out. From the hegemonic power, even in the event of the steady progress of competitive détente, it does not appear that it is reasonable to expect any positive stimulus and assistance for either form of Latin American regionalization, although of course this will receive its verbal blessing. As regards its general and economic policy *vis-à-vis* Latin America, it is to be assumed that it will prefer to return to bilateral agreements, which are easier and more direct than dealing with collective bodies, no matter how flexible their machinery may be. There is likely to be a certain distant indifference, without any hostility unless suspicions are aroused that joint action is afoot which will tend to lead to a radical break

with the accustomed alignment. Consequently, regionalization is a task which can only be carried out by the forces of the Latin American countries themselves, guided by a pragmatic policy capable of foreseeing the necessary stumbling-blocks in time. Only if a relatively high degree of progress and security were achieved in détente would it be reasonable to imagine different conditions in which the hegemonic centre would be freed of its prime preoccupations and could give itself up, in a climate of co-operation, to an authentic dialogue with its neighbours to the south on the basis of greater negotiating capacity of the latter, whether reunited or still separated.

This would be the moment in the futurological projection when Latin America, acting as a single unit, could freely express the impulses of its personality through a policy which affirmed only its own aspirations, free from all negative residues.

The revolt of the bankers in the international economy: a world without a monetary system¹

*Carlos Massad **

This article gives a brief overview of the post-war international monetary system and its main characteristics, with special emphasis on the aspects which subsequently created difficulties. It shows how the system developed and identifies the events which led to the international monetary crisis at the beginning of the 1970s. It describes the exchange arrangements which arose as a consequence of the crisis and analyses the conditions in which such arrangements can be effective, the developing countries' possibilities of using them, and the effects on those countries and on the demand for international liquidity by the public and private sectors. With regard to this latter aspect, it stresses the increase in the private sector's intervention role in the exchange markets and the influence of this increase on the international generation and transmission of disequilibria. It then goes on to the attempts to reform the monetary system and the amendments to the Articles of Agreement of the International Monetary Fund and their effects on the developing countries.

Finally, it offers some commentaries on the influence of the present international economic situation on the future development of the monetary system, contrasting the declared objectives with the present trends.

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Introduction

The last ten years have witnessed profound and rapid changes in the field of international financial relations, extending from the attempt to regulate the growth of international liquidity in the second half of the 1960s to the official acceptance of freedom in exchange matters at the beginning of the second half of the 1970s. An important implication of these changes is that they have shifted the main responsibility as regards exchange regulation.

Thus, the system in force since the end of the Second World War placed the main responsibility for the functioning of the system in the hands of the monetary authorities, whereas in the present situation it is the private sector market and bodies, particularly the banks and the transnational enterprises, which play an accepted and decisive role in the short-term management of exchange rates and the accumulation and disposal of international means of payment.

1.

The Bretton Woods system

The earliest sporadic efforts to organize some form of international monetary system to replace the gold standard date from the period of monetary disorder of the 1930s, but the first systematic proposals were made only in 1942, in government circles of the United Kingdom and the United States.

These proposals were aimed at finding a solution for the monetary problems which were expected after the Second World War. The studies and proposals were headed by Harry

¹The theme of this article was presented at the CEPAL academic seminar of 4 May 1976. The author wishes to acknowledge the comments received, particularly those of Raúl Prebisch and Andrés Bianchi.

D. White of the Department of the Treasury of the United States and by John M. Keynes in England.

Less than three years had passed since the original proposal when the International Monetary and Financial Conference of the United Nations and their associates, meeting at Bretton Woods, New Hampshire, in the United States, gave its approval to the new system. This was reflected in the Articles of Agreement of the new International Monetary Fund, which were adopted at that conference on 22 July 1944, came into force on 27 December 1945, and continued without changes for almost 25 years.²

(a) *The problems to be solved*

This international agreement pursued two main objectives: the correction of balance-of-payments problems and the creation and regulation of international liquidity.

As regards the first point, the agreement laid down that a country could only vary the relationship of its currency with gold, i.e., its "parity", when there were fundamental imbalances which could not be solved by any other means, and it placed emphasis on monetary and fiscal policies. It was expected that, except in extreme cases, these would be successful in adjusting the balance of payments without any need to modify parity. In order to ensure stable parity, the countries undertook to maintain their currencies within maximum limits of variation of

one per cent above or below parity and to intervene in the market to maintain those limits. Thus, through this relationship with gold, a relationship of the various currencies among themselves was also established: the system of exchange rates.

Since the intervention was to be carried out with United States dollars, that country lost its freedom to determine its own exchange rate. Indeed, the dollar exchange rate was simply the result of the determination by the rest of the member countries of the system of their own exchange rates with respect to the dollar. If the United States had tried to establish a different exchange rate, this would have led to a situation of incompatibility of policies, so that country had to refrain from intervening in the market. It was, however, agreed to convert into gold, at the official price of 35 dollars per troy ounce of fine gold, all dollars presented for conversion by the monetary authorities of the member countries.

Thus, the dollar was the currency of intervention and current use in international payments, the exchange rates of the various currencies were established in relation to the dollar, and the dollar, in turn, anchored the system to gold. It was expected that the International Monetary Fund would recommend adjustment measures both for countries with deficits and those with surpluses in their international payments, and a system of medium-terms loans was set up for the countries which took adjustment measures, with the aim of covering the period needed until those measures took effect.

As regards the creation of liquidity, the Articles of Agreement of the International Monetary Fund provided that this should be regulated through "uniform changes in par values", which are no other but changes in the price of gold, expressed in all currencies in the same proportion. This is the same thing

² An excellent description of the various proposals made, the debates which took place and the negotiations which led to the Bretton Woods agreement may be found in Y. Keith Horsefield, *The International Monetary Fund 1945-1965*, International Monetary Fund, Washington, D.C., 1969.

as a change in the price of gold in all currencies: more currency units for the same quantity of gold, thus increasing international liquidity, although naturally only in terms of currencies and not of gold.

A second means of modifying international liquidity consisted of the possible accumulation of more gold in the vaults of the Central Banks. Thus, the creation of international liquidity was linked to the total existing reserves of gold, the annual production of that metal, and its price in terms of currency units.

(b) *The system in practice*

The economic conditions of the countries at the end of the Second World War were such that the dollar became the international means of payment and the most sought-after currency for accumulation. On the one hand the European countries needed to build up their reserves, while on the other, the rapid expansion of world trade after the war generated a growing need for means of payment. In order to accumulate these, the European countries maintained persistent surpluses on their international payments, which was only possible thanks to the persistent deficits of the United States, financed through the increase in the United States' short-term external liabilities.

The foregoing leads us up to one of the great problems raised by the scheme devised at Bretton Woods: the lack of incentives for making adjustments in countries with persistent surpluses or countries able to finance their deficits with their own currency which was accumulating abroad. Neither of these types of countries needed to have recourse to IMF financing, and they were therefore not subject to its

discipline,³ which eventually applied in practice mainly to the countries with international payments deficits and without reserve currency.

Furthermore, the international liquidity requirements were being satisfied through the accumulation of dollars by the countries with surpluses, at the cost of transferring real resources to the country issuing the reserve currency.

The system therefore contained three main shortcomings: a shortcoming as regards the stimuli for making adjustments, which caused the burden of these adjustments to fall on the countries which had deficits and no reserve currency; a shortcoming as regards the obligation to intervene in currency markets which meant that the United States was exempted from this requirement in return for guaranteeing convertibility into gold, and a shortcoming as regards the generation of liquidity, the cost of which had to be paid by the rest of the world to the issuing country.

This last shortcoming calls for a special explanation. When a country accumulates means of payment from abroad it does so by refraining from using those means of payment to obtain real resources from other countries. For its part, the country which supplies the foreign currency thus accumulated does so in exchange for a good or service from the country receiving the currency. Thus, a country which finances its deficits with its own currency is really changing that currency for goods and services abroad. The country which accumulates such currency is supplying

³ Except, in the case of the former, for the possibility that their currency might be declared a "scarce currency". This punishment was never applied, however.

goods and services in exchange for it, so that there is a net flow of real resources from the country which accumulates reserves towards the country which finances its deficits. The country issuing the currency is receiving seigniorage from those accumulating it.

Some of the shortcomings mentioned above were solved more adequately in the plan put forward by Keynes during the discussion on monetary reform held in the last years of the Second World War. This plan provided for the establishment of a clearing house which would act as a kind of central bank of the central banks and keep accounts of international transactions, just as a central bank keeps accounts of the transactions between commercial banks. The plan provided for interest to be collected both on negative and positive balances with the system, thus creating an incentive for adjustments not only by the debtor countries but also by the creditor countries. It limited both the positive and the negative balances to a certain maximum and suggested the creation by multilateral decision of an international currency, "bancor", to provide the necessary

international liquidity. It laid down certain conditions under which debtor countries had to devalue their currencies or creditor countries had to revalue theirs, and it permitted much greater exchange flexibility than the agreement adopted at Bretton Woods, which was inspired by the ideas of Harry D. White. The Keynes plan also proposed the creation of an international investment organization to which automatic contributions would be made by countries with balance-of-payments surpluses, an organization responsible for regulating the cyclic variations in the prices of primary commodities, and an international economic organization for consultation and discussion on economic policy in the world.

Both plans—that of White and that of Keynes—assigned great importance to the action of the authorities in the functioning of the monetary system. This was clear both from the multilateral body which was supposed to be set up and from the policies whose application by governments was supposed to make exchange fluctuations unnecessary or at least minimal.

2.

The development and crisis of the international monetary system

After the end of the Second World War, the economies of Europe and Japan began to recover from the effects of the world conflict, to grow more rapidly than the United States economy, and to increase their productivity at a rapid rate. International trade expanded, and the demands on official reserves increased. Private holdings of international liquidity were of no importance

whatever: the rigidity of exchange rates and the decreasing importance of exchange restrictions enabled the private sector to obtain the foreign exchange it needed from the monetary authorities at a given price. Since there was no serious uncertainty about exchange rates and the money markets were relatively limited, there were no abrupt short-term international movements of capital.

(a) *The development of the system*

A situation thus took shape in which the European countries and Japan registered continual balance-of-payments surpluses and thus accumulated the reserves which they needed. The United States balance of payments, for its part, registered a persistent deficit, financed by an increase in its external liabilities matching the accumulation of dollars by the countries which had a surplus.

Although the United States was not obliged to intervene in the markets to maintain the parity of the dollar, the system did provide for the convertibility into gold by the United States monetary authorities, on demand, of the dollar balances of official currency holders. It was assumed that this convertibility would induce the United States to apply adjustment measures to its balance of payments in view of the sustained deficits and the consequent accumulation of dollars abroad. These incentives proved ineffective, however, in view of the vigorous world demand for dollars with which to build up reserves. Already at the beginning of the 1960s official holdings of dollars abroad exceeded the gold reserves of the United States, and by the end of 1970 they came to 25 billion dollars⁴ whereas in the same year the United States' holdings of gold amounted to only 13.8 billions dollars.⁵

As foreseen by Robert Triffin,⁶ by the middle of the 1950s the massive

⁴Not counting official holdings of Euro-dollars. If these are taken into account, the figure rises to 34.2 billion dollars. See IMF, *Annual Report*, 1975, p. 39.

⁵Including 2.8 billion dollars in Special Drawing Rights and IMF loans.

⁶Robert Triffin, *Europe and the Money Muddle*, New Haven, Yale University Press, 1957: see especially pp. 296-299.

accumulation of dollars outside the United States created a risk of inconvertibility, since the monetary authorities of that country would not have been able to convert most of the official foreign holdings of dollars if these had been presented for that purpose.

(b) *The symptoms of the crisis*

The growing lack of confidence in the system led to the appearance of various crisis symptoms. When doubts arose regarding the capacity (or the willingness) of the United States to convert into gold the dollars accumulated abroad by official holders, this caused an unstable situation in which rumours were responsible for the movements of the market. As far back as 1960 the price of gold on the private market rose above 40 dollars per ounce, and this led Germany, Belgium, the United States, France, the Netherlands, Italy, the United Kingdom and Switzerland to enter into an agreement to pool their gold reserves in order to keep the market price at not more than 35.20 dollars per ounce. In December 1967 the United States lost almost a billion dollars—some 750 tons of fine gold at the official price of 35 dollars per ounce—when there was a wave of conversion of dollars into gold because of the fear that the United States exchange policy was likely to change. The losses continued in the early months of 1968, and in March the countries which had pooled their reserves declared that they would no longer support the price of gold on the free market and that the official price would be maintained only for transactions between central banks.⁷

⁷France left the group at the end of 1967.

The heavy conversions of dollars into gold in 1967, together with the growing accumulation of dollars abroad in contrast with the limited gold reserves of the United States, gave rise in the late 1960s to the generalized impression that the latter country would be obliged to apply adjustment measures to its economy in order to eliminate its balance-of-payments deficit. Such measures would bring about the closing down of the main source of new international liquidity, with the consequent danger that there would be a shortage of liquidity and a generalized tendency towards restrictions on foreign trade. In view of this prospect, the countries began to interest themselves in the possible creation of a substitute for the dollar as a means of international liquidity, the idea being to determine the value of that substitute by international agreement on the basis of some reasonable estimate of world liquidity requirements.

This is how Special Drawing Rights, which were linked to gold at the same parity as the dollar and which it was hoped would become the main form of international reserve assets, were born. Special Drawing Rights correspond to accounting entries between the IMF and the participating countries, and each country is assigned a certain amount of these rights, which it can use to obtain convertible currency. Special Drawing Rights have no physical existence and can only be held and used by institutions which carry out the functions of central banks. The amendment to the Articles of Agreement of the International Monetary Fund which set up Special Drawing Rights (SDRs) was adopted on 31 May 1968 and came into force on 28 July 1969. This was the first amendment to the Articles of Agreement of the Monetary Fund since these came into

force at the end of 1945, almost 25 years before.

The prophecies which had led to the establishment of Special Drawing Rights were not fulfilled. Not only did the United States balance-of-payments deficits continue, but there was also a big increase in the holdings of dollars and other currencies outside the issuing countries, thus giving a strong impulse to the Eurocurrency market.

Towards 1958 the Socialist countries, and especially the Soviet Union, began to deposit dollars in European banks to avoid possible action against them if they deposited the money in the United States, and these deposits gave rise to credits in the same currency. A little earlier the United Kingdom had introduced restrictions on the pound sterling for international trade purposes because of a heavy external deficit. These two facts gave rise to the Eurodollar market, made up of deposits in dollars outside the United States, both by central banks and governments and by commercial banks and other private bodies. Furthermore, as the international trade position of currencies other than the dollar was strengthened, deposits and credits in these currencies also began to be made outside their country of origin, thus diversifying and expanding the Eurocurrency market. These deposits and credits are not subject to the regulations and restrictions of the countries issuing the respective currencies, nor are they generally subject to regulation in the recipient country, so the Eurocurrency market is the freest and least regulated money market in the world.

The increase in the private holdings of foreign currencies, their diversification and the growing volume of official holdings brought still further instability

into the system. As soon as rumours of some change in the parity of a particular currency arose, this led to strong destabilizing movements of capital. Because of their magnitude, the monetary effects of such movements on the countries whose currencies were involved were impossible to compensate, even through non-traditional measures such as negative interest rates on deposits by aliens. Not even direct controls were sufficient to stop the short-term capital movements, since these were able to assume forms which were difficult or impossible to control, such as deferred or advance payments for imports and exports. By means such as those indicated, the capital movements sometimes took place through current transactions, which, according to the Bretton Woods agreement, could not or rather should not be regulated through direct controls.

(c) *Crisis and confusion*

As the accumulation of dollars in official and private circles outside the United States continued, this in turn generated lack of confidence in the convertibility of the dollar into gold and gave rise to strongly destabilizing capital movements. In these circumstances, on 15 August 1971 the United States Government officially suspended the convertibility of the dollar into gold, thus breaking the very basis of the monetary system set up at Bretton Woods. This date marks the final crisis of this system.

After this measure by the United States, there was great confusion in the markets and repeated attempts to find a new set of parities capable of being maintained. At the end of 1971, at a meeting held in the Smithsonian Institute, Washington, D.C., the highest

financial authorities of 11 industrial countries⁸ agreed to vary the exchange rates of their currencies by devaluing some of them (mainly the dollar) and revaluing others, such as the Japanese yen and the German mark. In effect, the devaluation of the dollar represented an increase in the official price of gold from 35 to 38 dollars per ounce. At the same time, with the aim of trying to cushion short-term capital movements, it was decided to expand the permissible margin of fluctuation of the currencies each side of parity from 1 per cent to 2.25 per cent. When it ratified these agreements,⁹ the IMF created a new concept, that of "central exchange rates". These, unlike the former "parities", do not necessarily assume a relationship with gold, but rather with another currency or with Special Drawing Rights.

The aim of the expansion of the permissible margins of fluctuation around parity or around the central rates was to establish an instrument which would cushion, through the functioning of the market forces, the short-term capital movements recorded in the recent past. It was hoped that, by increasing from 2 per cent to 4.5 per cent the width of the band within which the various currencies fluctuate without it being necessary for official intervention to take place to maintain the exchange rate, this would considerably weaken the incentive for short-term capital movements.

⁸West Germany, Belgium, Canada, the United States, France, Italy, Japan, the Netherlands, the United Kingdom, Sweden and Switzerland.

⁹The Smithsonian agreements are the first in which it was agreed to make generalized changes in exchange rates.

The new band was not sufficient to achieve its purpose either, however, and scarcely six months after the Smithsonian Agreement this had been completely smashed by events, while a very wide variety of exchange systems had sprung up in the various countries. For

reasons which will be analysed later, the majority of the developing countries had no alternative but to link their currencies to that of some industrial country with which they had important trade and capital transaction links.

3.

The "snake", the "tunnel" and floating

The independent floating of the main currencies discourages economic integration to some extent, since it changes the degree of protection agreed in advance for each of the economies which form part of an integration scheme with regard to the others. Such changes tend to create friction between the countries and to weaken agreements which often reflect a delicate balance of interests.

Because of their awareness of this situation, and with the object of continuing to advance towards their aims of economic integration, a group of European countries, basically those of the European Economic Community, tried to find ways of limiting the relative fluctuations between their currencies and agreed to set up a system under which they undertook not to allow the exchange rates to diverge from each other by more than 2.25 per cent with respect to the central parities or exchange rates agreed upon. Consequently, the group of currencies was to move more or less in unison within maximum margins of fluctuation equal to half the total margin of 4.50 per cent permitted by the Smithsonian Agreement. Thus arose the "snake", made up of the group of European currencies which fluctuated less than the rest. The maximum margin of fluctuation of 4.50

per cent was called the "tunnel", so that a monetary system was set up for the major countries which consisted of a "snake in a tunnel".

In practice, the maximum margin of 4.50 per cent of fluctuation soon lost its validity, while some of the members of the "snake" abandoned and rejoined it according to circumstances.¹⁰

Some countries such as Canada, the United States, Italy, Japan and the United Kingdom decided to allow their currencies to float independently. This did not mean that their authorities gave up intervening in the market, but simply that they ceased to stick to any fixed or previously revealed rules in this respect. Other countries fixed their exchange rates with respect to a set of currencies or to Special Drawing Rights and

¹⁰ West Germany, Belgium, France, Luxemburg and the Netherlands were the original members of this group, the formation of which was announced on 12 March 1972. On 16 March it was joined by Sweden, on 24 April by Italy, and on 1 May by the United Kingdom, Ireland and Denmark. These latter countries withdrew from the agreement on 23 June 1972, but Denmark re-entered it on 10 October. Italy left the group in February 1973. Finally, France left the group temporarily in January 1974, rejoined it in the last quarter of 1975, and left it once again at the end of the first quarter of 1976.

intervened in the market in order to maintain that rate, while others linked their currency to that of some other country. This latter category includes most of the developing countries.

Thus, the system of parities established at Bretton Woods, which had operated for 25 years, was replaced by a

variety of systems which reflected the diversity of interests and economic situations of the countries. For some of them, exchange rate floating has proved a relatively efficient solution, with relatively small alterations in exchange rates proving sufficient to bring about corrective movements, but for others floating may involve a high economic and social cost.

4.

To float or not to float

If small exchange rate changes are sufficient to bring about marked corrective movements in the balance of payments, then countries would be well advised to allow their currencies to float and the balance of international payments would be facilitated by only slight exchange rate modifications. In contrast, if severe exchange rate fluctuations are required in order to bring about a given corrective movement in the balance of payments, the countries probably would not be willing to allow their currencies to float freely or even with some degree of intervention. At the same time, while the existence of exchange markets—particularly for future transactions—enables exporters and importers to cover themselves against the risk of exchange rate changes, if such markets do not exist or if their scale is very limited this makes such coverage more difficult. Thus, a country where the existence of well-developed money markets is accompanied by a relatively high elasticity of response of the balance of payments to exchange rate movements will prefer the system of floating to other possible systems, whereas if such markets do not exist and there is poor elasticity of

adjustment to exchange rate movements this will act as a considerable deterrent to floating.

The responsiveness of the balance of payments to exchange rate movements will depend both on the price elasticities of the demand for imports and the supply of exports and on the probable magnitude of the changes in the conditions being faced by the country. This probable magnitude will influence the capital movements.

The smaller the proportion of imported products in the total and the more diversified are both imports and national production, the greater will be the price elasticity of the demand for imports. Thus, for example, a country which imports only a small proportion of the total domestic supply of particular products will find that the elasticity of demand for imports goes up in inverse proportion to the share of total demand, at each price, which is imported.

Furthermore, a country with diversified production which generally exports domestic production surpluses that are relatively small compared with total production will find that small exchange

rate movements will suffice to alter the price relationship between exported products and those consumed in the country; such alteration will be sufficient to cause the changes in demand thus generated to absorb an appreciable proportion of the exportable product or to increase considerably the balance available for export.

If these circumstances are present at the same time, then small variations in the exchange rate will produce substantial movements towards the adjustment of the balance-of-payments current account and, consequently, the probability that there will be very sharp changes in the exchange rate is only small. Moreover, if it is unlikely that the external or internal conditions faced by a country will change very substantially, then this set of circumstances will mean that the changes to be expected in the exchange rate will only be small. This will have an influence on capital movements, since limited movements in the domestic interest rates with respect to the external rates will be sufficient to compensate for possible gains through speculative transactions in connexion with exchange rate changes.¹¹

Generally speaking, these conditions exist more markedly in the United States

than in any of the countries of the European Economic Community taken separately. The European integration efforts, however, together with the joint float of the European countries' currencies, mean that the comparison should not be with each country, but with the whole group of countries. Viewed in this way, the countries of the European Economic Community show conditions very similar to those of the United States, so that the system of floating seems suitable for both.

For most of the developing countries, in contrast, the situation is exactly the opposite. The price elasticity of the demand for imports is usually lower, since imported products normally represent a high proportion of the total consumption, or such goods simply may not be produced in the country at all. The exports of these countries, for their part, are highly concentrated in just a few goods, almost the entire production of which is sold abroad. Consequently, on both the export and the import side, the change in the relative prices between products traded with the exterior and products used inside the country must be large in order to bring about an adjustment of a given size. Thus, the probability of large fluctuations in the exchange rate is greater, since it is more difficult to compensate the incentives for capital movements through variations in interest rates.

Furthermore, the developing countries do not have substantial foreign exchange markets, and in most of them there are no future markets for their currencies, so that it is not possible for exporters and importers to cover themselves against foreign exchange risks in the domestic markets.

Moreover, in most of the developing countries revenue from taxes on export and import activities forms an appre-

¹¹Let us assume, for example, that a 3 per cent devaluation in a country's currency is expected in the year. It will be sufficient for domestic interest rates to rise 3 per cent compared with external rates in order to eliminate any incentive to take capital out of the country. Similarly, however, if the expected devaluation is 15 per cent, then the domestic interest rates must rise by at least that figure with respect to external rates in order to achieve the same purpose. The necessary movements in interest rates would have to be even bigger if the devaluation was expected at a certain moment in time instead of taking place over a whole period.

cial part of fiscal income, so that changes in exchange rates are also transmitted to the rest of the economy through their repercussions on fiscal financing.

To sum up, then, while currency floating is a suitable possibility for the United States and Europe it is the least attractive or most costly option for most

of the developing countries. This is why the developing countries have not welcomed with any degree of enthusiasm the breakdown of the Bretton Woods agreement, and why in general they have linked their currencies with those of some industrial country with which they have substantial trade and financial links.

5.

The effect of floating on the developing countries

As we have seen, the developing countries have generally been impelled to link their currencies to those of some industrial country with whom they trade. If there is a fluctuation in the mutual relationships of these currencies, then there will be changes in the effective exchange rate of the developing country in the same direction as the movement in the main currency. It is to be expected that the movements of the main currency will have a balancing effect for the country issuing that currency, but they will not necessarily have such an effect from the point of view of the developing country.

In practice, the exchange rate variations required in order to achieve a balancing influence on the balance of payments of a developing country are generally different from those which would make possible a correction of the international payments of the industrial country to whose currency the developing country's currency has been linked. This unbalancing bias does not disappear even when the currency of the developing country is linked to a group of currencies of industrial countries, since what interests every importer and exporter is the exchange rate of the

currency in which a transaction is being carried out, and not an average. The elimination of this problem involves relatively frequent adjustments to the exchange rate of the developing country with respect to the main currency. While such changes are made in some countries,¹² they are only possible in an inflationary environment in which advantage can be taken of the exchange rate movements made necessary by inflation in order to move the real exchange rate also in the desired direction. In countries where the rate of inflation has been low for a long period and where there is a tradition of exchange rate stability, these frequent adjustments are often politically impossible and may even be economically dangerous because of the expectations which they may generate.

Floating therefore introduces an additional element of risk into the external trade transactions of the developing countries and consequently tends to reduce the volume of resources devoted to the production of internatio-

¹² Such as Brazil, Chile and Colombia, for example.

nally saleable goods, since uncertainty is an additional cost in international transactions as compared with transactions on the domestic market.

Some countries have tried to tackle these problems by changing the currency

to which their own currency is linked. These changes cannot be made too frequently, however, since this would increase the risks involved in international transactions instead of reducing them.

6.

The role of private holdings of foreign currency in the generation and transmission of international imbalances

While there is no clear proof of this, it might be expected that the floating of the main currencies would reduce the demand for reserves for the purpose of intervention by the authorities, as compared with the demand generated under a system of fixed parities. In this latter system, the private sector can minimize the balances which it maintains in foreign currencies, since it is possible to obtain such currencies at any moment from the monetary authorities. The latter bear the entire responsibility as regards intervention in the markets, particularly when only a small fluctuation is permissible around the established exchange rate. In a system of floating exchange rates, in contrast, the task of intervening in the market falls entirely or partially on the private sector. When a perfectly clean float is involved, i.e., when the official sector never intervenes in the market, the responsibility of the private sector is complete, whereas when the monetary authority aims to regulate exchange rate fluctuations in some manner through its own intervention the responsibility of the private sector is partial.

At all events, whether the monetary authorities do not intervene at all or intervene partially in the market, floating creates a stimulus for private intervention in the exchange markets

with a view to reducing variations in exchange rates or else spreading them over a period of time.

The private sector must accumulate stocks of the foreign exchange in which it is to intervene in order to play a part in the markets and thus try to reduce uncertainty about the exchange rates. Naturally, the bigger this accumulation of foreign exchange, the bigger will be the effect which the action of the private sector can have on the exchange markets, since when it has its own resources this sector is less vulnerable to control or regulatory measures that may be adopted by the authorities.

Consequently, it may be expected as a result of floating that there will be a reduction in the official demand for reserves and an increase in the private demand for these.

On the other hand, the greater the diversity of currencies which are of importance in the international market, the greater must be the diversity of the reserve holdings, both official and private, if there are changes in the exchange rates of these currencies. Such diversification may tend to make exchange rates more volatile by creating opportunities for speculative movements among the various currencies accepted in international payments. This is particularly so when a considerable part of the

accumulation of reserve currencies is concentrated in the private sector, since the official sector may be expected to be less sensitive to the possibility of speculative gains.

For the private sector this generates a problem of the composition of assets, which may be dealt with through the well-known models of the composition of these. If we follow the logic of these models, we may conclude that when the private sector accumulates foreign currency it does so by disposing of other forms of assets, including national currency. Thus, the private accumulation of foreign currency may generate pressures similar to those produced when the accumulation takes place in the official sector. Whereas in the latter case there would be an issue of money for the purchase of foreign currency, in the former case there would be a reduction in the demand for other assets, including money, matching the total demand for foreign currency.

Let us suppose, for example, that starting from a situation of equilibrium there is a deficit in the United States balance of payments, measured in terms of liquidity, although the equilibrium of the balance is maintained when measured in terms of official transactions.¹³ This equilibrium will be maintained as long as there is no official intervention, but the absence of interven-

tion will not guarantee equilibrium in the balance of payments measured in terms of liquidity.

In the example described, additional balances of dollars in the hands of the private sector would be building up abroad, thus generating inflationary pressures towards the exterior. Through this mechanism, the disequilibrium in the United States balance of payments would be transmitted to the rest of the world, even if the exchange rates were floating.

Naturally, the process of transmission also functions through the exchange rates. A devaluation will produce an increase in the cost of imported products and will also apply upward pressure to the domestic prices of exported goods, thus causing an increase in the average domestic prices, whereas revaluation will not produce a similar reduction in these prices, because prices do not go down as easily as they go up. It will thus be observed that the system of exchange rate floating contains an inflationary element even when, over a long period of time, the average exchange rate remains constant. There are those who assert that this bias towards inflation is increased by the fact that exchange rate floating conceals behind the movements of the exchange rate the unbalancing effects of domestic policies, so that it reduces the incentive to apply anti-inflationary policies.

To sum up, there are various ways in which an imbalance can be transmitted internationally, even with completely floating exchange rates.

¹³ This means that although the situation as regards the *official* external assets and liabilities of the United States does not change, the net liabilities to private creditors increase.

7.

The reform of the system

The breakdown of the international monetary system in 1971 immediately generated greater interest in the discussions about its reform. Although some economists had long ago drawn attention to the need to make changes in the system, these proposals had taken shape only in the creation of Special Drawing Rights. The rest of the features of the system had remained completely untouched until their complete breakdown.

The existing institutional machinery did not facilitate the study of a broad type of monetary reform in which the participants would be not only the most important industrial countries, but also the rest of the members of IMF, including the developing countries. The Board of Governors of the Fund, its highest authority, was not a suitable mechanism for the study and discussion of such a complex problem, as it was difficult both to arrange for relatively frequent meetings of over 120 Governors and to organize a fruitful discussion in such a large assembly. In view of this, the Executive Directors of the IMF proposed to the Board of Governors the establishment of a committee of 20 Governors representing the various countries or geographical areas of the world: with a small Executive Secretariat and through frequent technical-level meetings this could take upon itself the study of monetary reform. This Committee, which was set up with the name of the Committee of 20, worked in 1972 and 1973 to prepare the bases for the future monetary reform.

The Committee of 20 tried to conceive the basic characteristics of a

monetary system of the future which could solve in a suitable manner both the problems of adjusting the balance of payments and those of creating liquidity. The Committee agreed on the need to ensure greater similarity between the adjustment obligation of countries which had deficits and those which had surpluses and on the desirability of ensuring better control of the creation of liquidity. There was general agreement that the Special Drawing Rights should be the centre of the monetary system, thus replacing gold, and that it was desirable to set up a system of stable but adjustable parities.

The Committee of 20 was subsequently replaced by what was known as the Interim Committee,¹⁴ which was the forerunner of another committee later set up as a permanent organ of IMF through an amendment to its Articles. This Interim Committee ratified the basic characteristics of the system as agreed in the Committee of 20, although it changed the approach of its work somewhat. It devoted itself essentially to determining what amendments should be made immediately to the Articles of Agreement of the Fund with a view to establishing some legal basis for the functioning of the international monetary system. At the Fifth Meeting of the Interim Committee of the Board of

¹⁴The Committee of 20 submitted its final report, with an outline of the reforms needed, on 14 June 1974. It was replaced on 2 October of the same year by the new Interim Committee of the Board of Governors of the International Monetary Fund.

Governors of IMF on the international monetary system, held in Jamaica in January 1976, it gave its final backing to a set of new measures which substantially modified the Articles of Agreement of the Fund.¹⁵

8.

The developing countries, the amendments to the Articles of Agreement of the IMF, and the agreements of the Jamaica Meeting¹⁶

The amendments to the Articles of Agreement of IMF approved at the Jamaica Meeting refer to five basic aspects of the monetary system: the function of gold, the exchange system, Special Drawing Rights, the operations and transactions of the Fund, and its institutional structure.

(a) *Gold in the reformed monetary system*

The new measures mean the abolition of the official price of gold and of the set of rules designed to enforce that official price, including the end of the limitations of central banks or monetary authorities on free operations in the gold market. Without an official price, gold ceases to be the centre of the monetary system, since these measures eliminate all predetermined links between gold and currencies. Gold thus comes to play, within the monetary system, the same role as any other non-perishable product, the only difference being that this metal has a very generalized acceptance.

Generally speaking, the Fund is authorized to sell gold at a price linked to the market price in exchange for currencies, subject to certain limitations and after consultation with the country whose currency is being acquired in exchange for gold. The Fund is also authorized to sell gold to the countries

which were members on 31 August 1975, in proportion to their membership quotas at that date, in exchange for their own currencies and at the official price.

Every time that the Fund sells gold at the market price it must pay into its General Account the proportion corresponding to the official price, while the surplus must be paid into a Special Disbursement Account serving to pay both for ordinary operations and for financing special operations not considered in the Articles of Agreement, including possible direct distribution of the money to the developing countries in proportion to their quotas. When special operations are involved, these must be approved by the Board of Governors with a majority of 85 per cent of the voting power.

By eliminating the official price of gold, the system of parities based on gold disappears not only *de facto* but also

¹⁵ In April 1976 the Board of Governors ratified what had been approved by the Interim Committee at the Jamaica Meeting. In order for the amendments to the Articles of Agreement to come into force, however, ratification by the legislature is needed in most of the Fund's member countries.

¹⁶ A similar analysis of the subject dealt with in this section, made by the same author, previously appeared in *Temas del nuevo orden económico internacional*, Cuadernos de la CEPAL, N° 11, Santiago, Chile, 1976.

de jure so that the need arises for a new exchange system.

(b) *The exchange system*

The changes in the exchange system provide that every country can use the system of its choice: floating, frequent gradual adjustments, joint floats with other currencies, fixed exchange rates with respect to the intervention currency, Special Drawing Rights or a group of various currencies, or such other systems as may be adopted by the central banks. It is specified, however, that whatever the system used, the Fund shall exercise general supervision of the functioning of the systems in use, in order to ensure the collaboration of their members with a view to solving any problems which may arise.

In other words, the new articles of the Fund do not establish an exchange system but rather simply give their sanction to the existing situation,¹⁷ although they do authorize the Fund to restore a system of parities whose basis is described only in general outline. Thus, the draft states that, with a majority of 85 per cent of the voting power, the Fund can decide that the international economic conditions permit the introduction of a general foreign exchange system based on "stable but adjustable" parities which may be established in terms of Special Drawing Rights or of some other common denominator which is neither gold nor national currencies. They also provide that the maximum

and minimum exchange rates for spot transactions between the currency of one country and those of others which maintain this system of parities may not differ by more than 4 per cent, although this margin can be changed by the Fund subject to an 85 per cent majority vote. Since these parities are not expressed on the basis of currencies, the margin is applied in the same way to all of them.¹⁸

In order to be able to restore the system of parities, in addition to the 85 per cent voting majority required, the Fund must take account of the situation of the world economy, particularly as regards the generation of liquidity and the process of adjustment. As regards the former, it was hoped that there would be good control of the growth of international liquidity, and as regards the latter it was hoped that arrangements would come into effect under which both members in surplus and members in deficit in their balances of payments would take "prompt, effective and symmetrical action" to achieve adjustment. The Fund must also make its determination on the basis of the underlying stability of the world economy, taking into account price movements and rates of expansion in the economies of its member countries.

(c) *Special Drawing Rights*

The amendments connected with the characteristics and use of Special Drawing Rights are designed to make these the main reserve asset of the international monetary system. They put

¹⁷ It is proposed to change the title of Article IV of the Articles of Agreement of the International Monetary Fund, "Par values of currencies", to "Obligations regarding exchange arrangements".

¹⁸ If the parities were expressed in terms of a currency, then the possible margin of variation of the latter would be half the margin of variation of the other currencies.

an end to the link between Special Drawing Rights and gold and authorize the Fund to determine the mode of valuing them and even make substantial changes in the systems of valuation. In general terms, they maintain the provisions which limit the use of Special Drawing Rights to situations of need rather than cases where there is simply a desire to change the structure of a country's reserves. The principle of "designation" is preserved, whereby the Fund can designate a country to provide currency in exchange for Special Drawing Rights, provided that the country's reserve position is sufficiently strong. In addition, the majority needed for modifying or eliminating the obligation to reconstitute funds is reduced.¹⁹

The limitations on the rate of interest payable on Special Drawing Rights are eliminated, and gold is eliminated as a means of payment for obtaining Special Drawing Rights in order to pay the charges applied. The countries participating in the Special Drawing Account undertake to collaborate to ensure that SDRs are converted into the principal asset of the international monetary system. In addition it is laid down that countries may pay the Fund in currencies of other member countries in exchange for

Special Drawing Rights, provided that the countries issuing the currency in question are agreeable to the transaction.

(d) *The operations of the Fund and its institutional structure*

The new articles also provide for modernization of the operations and transactions of the Fund and expansion of the categories covered by them and facilitate the use of the Fund's resources to finance contributions to international buffer stocks of primary commodities; in addition, it is hoped that the IMF will use its holdings of all currencies in its operations, and not just its holdings of some of them, as occurs at present: the concept of "currency convertible in fact" is replaced by that of "freely usable currency".

As regards the institutional structure of the Fund, the new articles authorize the Board of Governors of the Fund to set up, as a new IMF body, a Council of Governors to serve as an organ of analysis and discussion of a political nature which will be more flexible and efficient than the Board itself. The Council will have as many members as there are Executive Directors of the Fund, and these members will be elected by the same countries or groups of countries which elect the Executive Directors.

(e) *Other decisions of the Interim Committee*

In addition to approving the amendments to the Articles of Agreement of the IMF, the Jamaica meeting of the Interim Committee ratified the decision to sell one-sixth (some 25 million ounces) of the Fund's gold holdings by public auction over a period of four years and to devote all the profits thus

¹⁹ The present provisions state that each participant shall so use and reconstitute its holdings of Special Drawing Rights that at the end of each calendar quarter the average of its total daily holdings of Special Drawing Rights over the most recent five-year period shall be not less than 30 per cent of the average of its daily net cumulative allocation of Special Drawing Rights over the same period. If the average is below the minimum, the participant is obliged to "reconstitute" its holdings, i.e., to acquire Special Drawing Rights in order to comply with this obligation.

produced to the developing countries both by directly supplying them with a proportion of the profits corresponding to their quotas and through the formation of a special aid fund for developing countries which are going through difficult conditions. In the latter case, the per capita income of the member country in question will be taken into account.²⁰

The meeting also ratified the decision to provide each member country, in exchange for payment in its own currency, with a proportion corresponding to that country's quota of an additional amount of 25 million ounces of gold, valued at the official price of 0.888671 grams of fine gold per SDR unit.

At the Jamaica meeting, the Interim Committee endorsed the IMF Executive Directors' proposals for a global increase of 32.5 per cent in the quotas of member countries.²¹ This increase would be so distributed that it would double the proportion of quotas accounted for by the oil-exporting countries (from 5 per cent to 10 per cent of the total), the proportion of the other developing countries would remain the same, while that of the industrial countries would be reduced. At the same time, the Committee decided to support the proposal for a 45 per cent increase in each of the credit tranches of the Fund

²⁰ This means that special preference will be given to countries with a per capita income of less than 300 SDR units (some 360 dollars), thus ruling out most of Latin America.

²¹ The increase in the quotas has already been approved by a vote of the Governors, but it will not enter into force until the legal requirements are completed in each country and until the reforms to the Articles of Agreement of the Monetary Fund are approved. The whole process may last for another year or more.

as a temporary measure until the increase in the quotas came into effect.

In addition, the Committee noted with satisfaction the decision of the Executive Directors of the Fund to modify the arrangements for compensatory financing to make up for temporary shortfalls in export incomes. These modifications will liberalize the system and enable more account to be taken of the most recent developments, including the price increases recorded in international trade.

(f) *Effects on the developing countries*

Out of this set of decisions, the most noteworthy because of their effect on the developing countries in general and the Latin American countries in particular are those connected with the abolition of the official price of gold, the use of all currencies in operations and transactions, the acceptance of the existence of multiple foreign exchange systems, the changes made in the compensatory financing facility, the temporary increase in the credit tranches of the Fund, and the establishment of a Trust Fund.²²

First of all, the abolition of the official price of gold means in practice—as long as its general acceptance lasts—an increase in that price. Market prices already influenced the decisions of the central banks in the past, but the freedom to carry out gold transactions at market prices gives official sanction to the consideration of gold at higher prices than the official rate of 1 SDR unit per 0.888671 grams of fine gold (equivalent

²² The Trust Fund will be set up with part of the profits from the sale of the Fund's gold and will be designed to help the poorest member countries on highly concessional terms.

to about 42 dollars per ounce). In reality, the Fund had already agreed with at least one member country that the member could value its gold reserves, for domestic purposes, at a higher price than the official figure.

A higher price for gold means an increase in liquidity as expressed in terms of currency, in proportion to countries' gold holdings. Since there is uncertainty about the market price, however, it is probable that in measuring the liquidity created it will be necessary to reduce the apparent result by a certain amount in order to take this uncertainty into account.

If a difference in price of 60 dollars per ounce is assumed between the official price and the market price, the legitimation of the latter price for official operations will, if the proposed amendments to the Articles of Agreement are approved, affect the conduct of official holders of gold. If, in view of the uncertainty about the market price, the profit margin influencing the decisions of these official holders of gold is reduced to a figure of 50 dollars, the resultant increase in liquidity would be some 50 billion dollars. Out of this total, no more than 2.6 billion dollars would correspond to the non-oil-exporting developing countries.²³

Moreover, the provisions concerning the Fund's use of all currencies in its operations mean that use will also be made of the currencies of the developing

²³ These estimates are based on the assumption that the total gold holdings of the member countries of IMF are 1 billion ounces, of which 5 per cent corresponds to holdings of the non-oil-exporting countries. It is assumed that the price of gold which influences the decisions of holders of this metal is below the market price, since the latter is subject to quite substantial fluctuations.

countries, which are not generally considered reserve currencies and will therefore be converted into such currencies. The reserves of the developing countries would thus be committed to some extent, although exactly how much is difficult to specify.²⁴

The new agreements would probably also have other longer term but perhaps more important effects on the developing countries. The endorsement of floating as a system might oblige countries to diversify their reserve currency holdings, thus reducing instead of increasing the importance of Special Drawing Rights. For the developing countries, whose currencies will not generally be accumulated by other countries, these holdings could signify an extra cost in terms of resources delivered in exchange for the currencies of the other countries which are being accumulated. This cost is also difficult to estimate in advance, and its measurement will have to await the course of events.

Moreover, as already noted, floating does in itself impose an additional cost on most of the developing countries which, because of the lack of exchange markets for transactions in their currencies or because of the small size of such markets, are obliged to link their currencies to those of some other country or group of countries with which they trade. Naturally, if floating manages to minimize the fluctuations in the international trade of the developed countries it will in this way have a positive effect on the developing

²⁴ If a country, in drawing on the Fund, obtains currencies which are little used in international trade, it can approach the country issuing that currency to obtain reserve currencies in exchange for it.

countries, but what has been observed so far does not seem to point in this direction.

The changes made in the compensatory financing facility enable the developing countries to use it more easily,²⁵ and the estimates made by IMF seem to indicate that these countries would be able to draw on about 1 billion dollars in this way in 1976.²⁶ Assuming net increases of 1 billion dollars per year until the figure of an additional 5 billion dollars is reached, the current value of this greater access to credit, calculated at an actualization rate of 7 per cent per year, would be less than 4.4 billion dollars.

The temporary 45 per cent increase in the credit tranches of the Fund also represents an increase in the resources at the disposal of all member countries: in this way, the developing countries could obtain some 500 million dollars in 1976.²⁷ If it is assumed that these countries will be able to count on net increases of 500 million dollars per year under this heading until the figure of 2 billion dollars is reached, then the present value of such resources, also at an actualization rate of 7 per cent per year would be some 1.8 million dollars.

Finally, the Trust Fund could mean an additional contribution in favour of

the poorest developing countries of 400 to 500 million dollars.

The liberalization of the compensatory financing facility and the temporary increase in the credit tranches would thus mean some 5.2 million dollars more for the non-oil-exporting developing countries, measured in terms of the present value of the sums involved. The freeing of the price of gold and the establishment of the Trust Fund would represent about an extra 3 billion dollars.

At the same time, however, the termination of the Oil Facility would mean the loss of rights to draw resources amounting to some 2.8 billion dollars, which is the present value of the drawings by developing countries made or approved in 1974, 1975 and 1976.²⁸

The developing countries are also affected by the greater need to adjust their economies to cope with the fluctuations of the main currencies and the need to accumulate additional currencies in their reserves. For the developed countries, in contrast, floating seems to solve some problems of capital movements which would be difficult to handle by other means, while the accumulation of currencies by these countries is compensated because each of them accumulates the currencies of the others. Thus, in net terms, the accumulation of currencies by the developing countries signifies the absorption by them of currencies issued by the developed countries.

Moreover, the developed countries and the oil-exporting countries will

²⁵ It is not yet possible to measure the greater ease of use of the compensatory financing facility in concrete terms, since this will depend not only on the new operating rules, but also on the specific policies which the Fund puts into practice.

²⁶ Statement by the Managing Director of IMF at press conference held on 8 January 1976, IMF Survey, 19 January 1976, pp. 24 and 25.

²⁷ *Ibid.*, pp. 24 and 25.

²⁸ The Oil Facility was set up by the Fund in 1974 with the aim of helping to avoid restrictive measures on international trade which might arise in oil-importing countries as a result of the sharp rise in the price of this fuel.

**MEASURABLE EFFECTS OF THE REFORM OF THE MONETARY SYSTEM AND
OTHER AGREEMENTS BY THE FUND ON THE DEVELOPING
COUNTRIES AND OTHER MEMBER COUNTRIES OF IMF**

(Billions of dollars)

	<i>Non-oil-exporting developing countries</i>	<i>Other IMF members</i>
Compensatory financing	4 387 ^a	—
Credit Tranches	1 812 ^b	5 616 ^c
Gold ^d	3 000	48 000
Oil ^e	- 2 757	+ 2 757
TOTAL	6 442	56 373

^aCalculated on the assumption that only the non-oil-exporting developing countries make use of this facility. The calculations also assume that there will be a net increase in drawings of 1 billion dollars per year for five years and that from then on there will be no net increases. In order to work out the present value, an actualization rate of 7 per cent per year was used.

^bCalculated on the assumption that there will be a net increase in drawings by the developing countries of 500 million dollars per year until a total of 2 billion dollars is reached.

^cCalculated on the assumption that there will be a net increase in the drawings by the other member countries of 2 billion dollars per year until a total of 6 billion dollars is reached.

^dCalculated on the assumption of a gain of 50 dollars per ounce in the price of gold kept as reserves.

^eThe effective data were actualized at the rate of 7 per cent per year.

receive an increase in their liquidity, measured in terms of currency, of some 48 billion dollars, while they will also have the possibility of using the expanded credit tranches of the Fund, which may signify a current value of some 5.6 billion dollars more, thus making a total of about 53.6 billion dollars. Furthermore, these countries will no longer have to contribute to the financing of the Oil Facility, which involved (after deduction of the drawings made by developed countries) the provision by them of financing with a current value of some 2.8 billion

dollars. Their total benefits thus rise to some 56.4 billion dollars.

As may be seen from the following table, the quantifiable effects of the Jamaica agreements and the other measures adopted by the Fund represent resources worth almost 64 billion dollars, of which only 10 per cent corresponds to the non-oil-exporting developing countries, although these countries contribute 22 per cent of the quotas of the Fund and generate at least 15 per cent of the total national product of the Fund members.

9.

The effects of the present situation on the future system

The objective which should be achieved by a new international monetary system and which had been endorsed at various ministerial-level international meetings are those of reducing the role of gold in the system, making Special Drawing Rights the central element, achieving suitable control of the expansion of liquidity, and ensuring symmetrical incentives for adjustments by both deficit and surplus countries. Another objective which has been mentioned is that of achieving a system of stable but adjustable parities: more stable than the present exchange rates, but also more easily adjustable than the old parities. The strategy selected for achieving these objectives is that of gradual evolution in order thus to ensure that every further step is taken only when the general economic circumstances make this possible.

Today, however, the situation of the system seems to be pointing, as we shall see, in a different direction from that indicated. At present, a group of industrial countries has agreed on a joint float of their currencies, while those of other industrial countries float independently and the vast majority of the developing countries have linked their currencies to those of one or other of the industrial countries.

The joint floating of a group of currencies calls for official intervention in order to maintain each of them within the limits which have been accepted by the group. This intervention calls for the constant use of the various currencies which make up the group and for financing which is generally obtained

through some form of mutual credit support between the central banks. While the financing needs would be very small or zero in the long term if the system were stable, this stability is nevertheless not guaranteed, and at the same time there is a short-term need for financial resources in order to intervene. Naturally, this intervention is carried out with the use of currencies, and not of other international assets.

Moreover, the group of currencies which float together moves, with respect to the currencies which are floating independently, in a direction which is generally balanced for the group of countries involved, although not necessarily for each individual country. If this is a free or "clean" float, the authorities do not need to intervene in the markets. From this point of view, while the authorities need to possess resources in order to intervene in order to maintain the exchange rates within the limits agreed by the group of countries whose currencies are floating together, they do not need to intervene in respect of any currencies outside the group. In this case, however, as already stated, there will be incentives for the private sector to intervene in the markets of the currencies which are floating, and this sector will consequently have to accumulate currencies with which to intervene.

The developing countries, for their part, which are generally forced to link their currencies to those of some industrial countries, have to accept unlimited intervention by their central banks in order to maintain the exchange rate fixed in respect of the currency to

which they are linked. Since this link can produce destabilizing effects it may also increase the need for official reserves in order to intervene. Thus, considerations of uncertainty will assuredly lead the central banks of the developing countries, like other holders of foreign currencies, to diversify their holdings.

This situation has various effects on the demand for reserves. As already stated, the monetary authorities of the countries whose currencies are floating together cover their requirements for the intervention financing needed to maintain the exchange rates prevailing between them through a system of mutual credits, so that the net demand for additional reserves by the group for this purpose will be close to zero. Moreover, the floating with respect to the other main currencies will tend to diminish their demand for reserves and to change the composition of such reserves in favour of a larger accumulation of the currencies of the countries outside the group which are accepted as an international means of payment. The private sector, for its part, will display a bigger demand for currency with which to carry out the sector's expanded intervention in the currency markets.

It is difficult to gauge the relative effect of these influences in view of the limited number of observations available and the fact that the float has not been really clean. It is possible, however, to draw some tentative conclusions regarding the real transfers of resources implicit in the accumulation of reserves. The incentives which are inherent in the system seem to point towards a slight reduction in the official demand for reserves in those countries whose currencies are floating, as against an increase—sometimes considerable—in private demand. At all events, the countries whose currencies are used in inter-

national transactions will observe that the increase in holdings of the currencies of other countries is compensated, at least partly, by the increase in holdings of their own currency by other countries.

In the case of the countries whose currencies are floating jointly, it may be hoped that, if the system is stable, the purchases and sales of each particular currency will tend to cancel each other out in the long run. Consequently, for the countries whose currencies are used in international trade, any additional accumulation of reserves will take place without real transfers of resources or else with very small transfers. This contrasts with the situation before 1970, when the European group of countries accumulated the dollar without the United States having to accumulate European currencies. As a result of these influences, there will be a relative increase in the demand for currency compared with other reserve assets, and particularly compared with Special Drawing Rights.

In the developing countries, the demand for official reserves will tend to increase because of the additional requirements for adjustment created by the linking of their currencies to another floating currency. This accumulation will take place without compensation, since the other countries will not accumulate the currencies of the developing countries.²⁹ Consequently, these countries will accumulate reserves at the cost of transferring real resources to the countries whose currency they are accumulating. A link is thus established between the generation of liquidity and the transfer of real resources, but it is a link which operates in the opposite

²⁹Except for the currencies of the oil-exporting countries.

direction to that which is desired: resources are transferred from the developing countries to those whose currency is accumulated.

This analysis enables us to conclude that the international monetary system does not help to strengthen the role of Special Drawing Rights. The requirements for reserves for the purpose of public or private intervention are concentrated essentially in the main currencies. If there is any increase in the demand for reserves, it will be an increase in the demand for currencies, and not for Special Drawing Rights. Although in the industrial countries there may be a reduction in the demand for reserves by the official sector, there can be no doubt that there will be an increase in the demand by the private sector, which requires currency for its action and cannot, by the very nature and characteristics of these instruments, use Special Drawing Rights for this purpose. Thus, in these countries the main effect will probably be that of a change in the composition of the overall reserves, both public and private, in favour of currencies and to the prejudice of Special Drawing Rights.

The same is not necessarily true of the developing countries, since the greater adjustment requirements created by the floating of the currencies to which the developing countries own currencies are linked will generate a bigger demand for official reserves. This bigger demand for reserves could also be reflected in an increase in the demand for Special Drawing Rights, but because of its small size this is not likely to increase the importance of the latter in the international monetary system. Thus, the role of Special Drawing Rights in the system may well be reduced instead of increased, even if these are maintained as a useful unit of account.

It should be stressed that the function of Special Drawing Rights as a unit of account, important though it may be, does not endow these instruments with a central role in the system, since the same unit of account could be constructed with a group of currencies, without any reference to Special Drawing Rights.

The greater the importance of currencies as a reserve instrument, and the greater the proportion of private holdings in the total, the more difficult it will be to achieve suitable regulation of the growth of international reserves. On the one hand, the accumulation of currencies will depend on the economic policy of each country, and not on a rational collective decision, and on the other hand, the action of the private sector may help to create or destroy international means of payment through the operation of the banking systems, thus introducing into the picture an additional element which is extremely difficult to manage.

In the Eurocurrency market, a banking multiplier is in operation which is similar to that which exists in any national banking system with fractional reserves.³⁰ In national banking systems, the decisions of the private sector—banks, enterprises and individuals—as regards the reserves to be maintained to cope with possible withdrawals of deposits and as regards the preferred composition of currency holdings will determine the capacity of the banking system to create more or less money. The same elements operate in the

³⁰ For a detailed explanation of the process of "creation" of money in the Eurodollar market, see M. Friedman, "The Eurodollar market: Some first principles", in *The Morgan Guaranty Survey*, October 1969.

Eurocurrency market, with the difference that generally there are no minimum legal cash requirements which tend to impose a relatively low limit on the banking multiplier. At all events, private decisions can reduce or increase the total volume of deposits of Eurocurrencies as well as cause changes in their composition. If private holdings grow sufficiently, then it will be the action of the private sector which predominates in matters of intervention, and there will be no guarantee whatever that this will take place with suitable attention to the international adjustment requirements.

At the same time, the private sector can now evade the monetary and credit policies of the national central banks more easily than ever by the simple expedient of operating through banks located outside the national frontiers. The veritable revolution which has taken place as regards private international financing means that it is now much more difficult for the monetary authorities of the countries to control the domestic monetary and credit situation. The private sector is therefore now at

the centre of the international monetary machinery.

Generally speaking, then, the countries which are of greatest importance in international trade feel quite comfortable about the floating of currencies, and their demand for Special Drawing Rights tends to go down, while the influence of the private sector tends to increase, thus solving the floating requirements.

For the developing countries, in contrast, floating is a costly business, and in order to obtain additional liquidity resources they are obliged to transfer real resources in exchange. As these countries are not sufficiently important in quantitative terms in international transactions and their power of decision at the international level is rather limited, it is unlikely that their interests will predominate over those of the industrial countries, so that it can hardly be expected that the stated objectives of monetary reform will be fulfilled. Furthermore, the influence of private decisions on exchange and credit matters has come to be decisive.

10.

Conclusions

As will be gathered from the analysis made in the foregoing pages, the short-term situation is that the importance of Special Drawing Rights tends to go down, while that of currency floats tends to increase, as does the importance of certain individual currencies in international trade. At the same time, the authority of the body responsible for supervising the entire system diminishes, while the role of private decisions and

actions in the adjustment process is increased.

In this latter aspect, the private banks and bankers which operate in the international financial field have ever-increasing responsibilities. Their future expectations tend to make themselves come true, consequently provoking devaluations or revaluations if a devaluation or revaluation is what they expect. Thus, they have come to play a leading role in

exchange fluctuations and in the international adjustment process. The private sector is more sensitive than the official sector to variations in relative interest rates or expected exchange rates, so that the extraordinary volume now assumed by private holdings of foreign currencies introduces a dangerous element of instability into the picture. In addition, the changes in the desired composition of the assets and liabilities of the private sector may lead to important effects on global internal demand.

Because of this, the existing situation is not stable. It could lead to repeated crises and consequently bring about desirable modifications in the system, but such an effect would not be achieved through a peaceful evolution, but through the growing dissatisfaction caused by the crises.

As an illustration of this, the case of "snake" is particularly interesting. Because of the conditions in which the world economy is evolving, the continued existence of the "snake" is only possible as a result of frequent adjustments in the parities or central rates of the countries making up this system, or successive withdrawals and re-entries into the group, that is to say, frequent crises in the mechanism.

It would seem that only repeated crises in the international financial field could finally bring about the achieve-

ment of the objectives considered desirable. The highest authorities of the member countries of IMF have agreed that it is necessary to have stable but adjustable exchange rates, and to reduce the importance of currencies while increasing that of Special Drawing Rights in international payments. The present situation, however, is leading in exactly the opposite direction.

It is not even possible to achieve the objective of regulating the expansion of international liquidity in the present circumstances. The growing influence of private transactions in the international monetary markets³¹ makes it practically impossible to exercise adequate control over international liquidity, yet this is necessary in order to guarantee the sustained development of international trade without inflationary or depressive pressures. Such control calls for greater influence by the official sector and by the international organizations, including suitable regulation of the Eurocurrency markets. In this aspect also, however, the tendency has been in the opposite direction.

In short, either the true objectives sought in the international financial field are not those which have so far been accepted internationally, or else the procedures adopted in order to try to achieve them are not the right ones.

³¹ In 1964, the private holdings of international liquidity, which amounted to some 24 billion dollars, were one-third of the total official reserves. By 1973, however, they amounted to some 125 billion dollars, that is to say, over two-thirds, and far exceeded the

official reserves of the countries in whose currencies such holdings were maintained. See, for example, IMF, *Annual Report*, 1974, p. 44, which gives estimates of private holdings of international liquidity.

Industrial development and employment: the experience of Asia and Latin American development strategy

Akio Hosono *

In Latin America it is generally believed that the modern and traditional sectors of the economy are divergent and even incompatible, but in the light of the experience of Japan and China this assertion can be refuted. In the post-war period, Japan chose a style of development made up of both these sectors, which has promoted the parallel advance of industries of different size and capital intensity. Since 1958, China has followed the policy of "walking on two legs", which pursues the simultaneous and combined development of agriculture and manufacturing and, within the latter, of different sectors, levels of technology, and localities.

Both these processes were most successful in absorbing the considerable manpower existing in those countries: therefore, the author maintains that they should be known and studied in Latin America, where a large increase in the active population is expected in the next few decades.

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Introduction

Latin America is expected to have 477 million inhabitants in 1990 and 613 million by the year 2000.¹ There is no doubt, therefore, that the development strategy adopted in the rest of the twentieth century should take very much into account the question of how to provide food and sources of employment, and considerably improve the level of living of the population, given the expected population growth.

In the search for a development strategy for Latin America it may be useful to know the development experience of some densely populated countries of Asia. Japan, with its 100 million inhabitants and mountainous territory which is smaller than that of the State of California, is the country that has most recently attained a degree of industrial development comparably with that of the European countries, but through a very different process from that of other developed countries, owing precisely to its plentiful manpower. China, with over 700 million inhabitants and a very limited area of arable land per head, adopted a very different style of development from that of the socialist European countries, since it was based on the policy of "walking on two legs" and on the rural industrialization and other policies.

A comparison of the main economic indicators of Latin America with those of the two Asian countries referred to may make it easier to appreciate the significance of their experience in the past 25 years and contribute towards finding an alternative development strategy for the next quarter of a century in Latin America (see table 1).

¹CELADE, *Boletín demográfico*, No 17, January 1976.

In the present study, the problems related to employment and its possible solutions are analysed from three angles: the characteristics of industrial development, the modernization of agriculture, and technological progress.

Table 1
LATIN AMERICA, BRAZIL, CHINA AND JAPAN: MAIN ECONOMIC INDICATORS
(Millions of units)

Indicators	Latin America		Brazil		China		Japan	
	1950	1970	1950	1970	1950	1970	1950	1970
Population (inhabitants)	155	275	52	93	569 ^a	842	83	104
Cultivated area (hectares)	69 ^b	85	25 ^b	34	254 ^a	289 ^c	6	6
Production of cereals (tons)	36	91	14	37	154 ^a	240	15	15
Electric power generation (KWH)	27	147	8	46		60	47	360
Production of steel (tons)	1.4	13	0.7	6	1	21	3	93
Value of exports (dollars)	6 313	13 783	1 364	2 739		2 320	820	19 318

Note: This information is given for purely illustrative purposes. It includes approximate figures and some data which are not strictly comparable.

^a1952.

^bAverage for 1959-1961.

^c1965.

I Japan's experience²

At the end of the Second World War, Japan faced a serious problem of redundant manpower brought about by repatriation from its former colonies and the territories it had occupied, the demobilization of approximately 6

million members of the armed forces in 1946-1947, and the increase in its population due to the decline in the mortality rate. It should be recalled here that at the end of the 1940s there were about 15 million persons employed or under-employed, and that in 1950 about 50 per cent of the labour force was engaged in agriculture.³

² In Japan's industrial development process, the experience of most value to Latin America was in the period 1950-1970; it is on this period, therefore, that the statistical information and analysis for that country will be concentrated.

³ Before the war (1940) the proportion was 41.5 per cent.

In the ensuing 20 years (1950-1970) the labour force increased by over 15 million persons; those born during the post-war baby boom contributed to this increase in the final phase. Furthermore, there was a marked and continuing shift of manpower from the primary sectors (agriculture and fishing) involving around 10 million persons. Therefore, manufacturing, construction and other sectors had to absorb more than 25 million persons during that period.

It is surprising, therefore, to find that in spite of the situation prevailing at the beginning of the post-war period and the high increase in the labour force in the next few years, the abundance of manpower soon changed to a shortage, which was an important factor for the Japanese economy since superfluous

manpower had been one of the most serious chronic problems before the war.⁴

The secret of this phenomenon undoubtedly lay in Japan's accelerated economic growth, which was basically due to industrial development. The manpower engaged in manufacturing increased from 6 million persons in 1950 to nearly 14 million in 1970. If electricity, gas and water, transport and communications, and construction are also considered, the net increase in manpower absorbed by these sectors during the above period was 12.2 million persons (from 9 to 21.2 million). This increase represents 80.3 per cent of the total increase in the Japanese labour force during the period considered (see table 2).

1. Characteristics of industrial development and the increase in employment

How was manufacturing able to absorb so much manpower, particularly as Japan's industrial development was characterized by the expansion of the heavy and chemical industries, which are largely based on imported technology? It is a well-known fact that these industries, whose technology originated in countries suffering from a labour shortage, are generally unable to absorb manpower on any great scale.

Briefly, there can be said to have been parallel progress in both labour-intensive and capital-intensive industries, which was due not only to the particular structure of Japanese manufacturing industry in which certain sub-sectors play an important role, but also to the co-existence and simultaneous development of enterprises of different sizes.

As noted earlier, Japan's post-war

industrial development was predominantly characterized by the extraordinary expansion of the heavy and chemical industries. By the end of the 1950s the share of both these types of

⁴To analyse in more precise terms when and how this change occurred has been a subject of great interest to Japanese economists (see, for example, Ryoshin Minami, "The turning point in the Japanese economy", *Quarterly Journal of Economics*, August 1968). In the mid-1950s the employment problem was one of the country's main concerns. Officials of the Economic Planning Agency, in preparing the New Long-Term Economic Plan, considered that a minimum economic growth of 6 to 7 per cent was essential to be able to absorb 1.3 million new workers annually over the period 1957-1963. See Takafusa Nakamura, *Sengo Nihonkeizai* (The Japanese economy in the post-war period), Tokyo, 1968.

Table 2
**JAPAN: MANPOWER EMPLOYED BY THE MAIN
 ECONOMIC SECTORS**

Year	Total	Agriculture, forestry and fishing	Mining	Construction	Manufacturing	Basic services	Commerce, banks and other services	Public administration
<i>Millions of persons</i>								
1950	35.7	18.4	0.5	1.3	6.0	1.7	7.2	1.2
1970	50.9	8.9	0.2	3.9	13.8	3.5	19.0	1.6
<i>Variation (cumulative average annual rate)</i>								
1950-1970	1.79	-3.57	-4.38	5.82	4.24	3.72	4.97	1.48

Source: Statistical Office of Japan, *Japan Statistical Yearbook*, various issues.

Table 3
**INDUSTRIALIZED COUNTRIES: SHARE OF HEAVY AND CHEMICAL
 INDUSTRIES IN MANUFACTURING**
(Per cent)

	Japan	United States	United Kingdom	France	Italy	Federal Republic of Germany
<i>Value added</i>						
1955	45	63	62	59	55	57
1965	64	64	65	61	61	60
<i>Value of exports</i>						
1961	53	83	78	71	62	86
1968	73	87	77	74	64	84

Sources: Production: Economic Planning Agency, *Economic Survey of Japan, 1967*.

Exports: Ministry of International Trade and Industry, Official report on foreign trade (in Japanese).

This is one of the reasons why the heavy and chemical industries were able to absorb a large proportion of manpower in Japan.

It should be noted, however, that all the aforementioned industries in which Japan has specialized, while requiring fairly low fixed capital per worker,

industries⁵ in the total manufacturing value added had reached the same level as in the major European countries and the United States (see table 3).

Moreover, their share is unusually great in relation to the size of the population and per capita income.⁶

It should be noted, furthermore, that among the various heavy and chemical

⁵The heavy and chemical industries comprise the chemical industry (including the petroleum and coal products industries and the petrochemical industry), the metals industry, and the machinery and equipment industry (including optical and precision instruments and equipment), according to the normal definition of the Economic Planning Agency of the Japanese Government, which is used in the present study unless otherwise indicated. The term "heavy and chemical industries" is very common in official circles and among Japanese economists and constituted a general industrial policy aim in the period following the Second World War. Some economists admit, however, that the term is not always clear and tends to represent a rather vague concept. In this respect, see, for example, the article by Miyohei Shinohara on "Structural change in Japan's manufacturing industry in the post-war period", Shinohara and Fujino (ed.), *Nihon no Keizai Seicho* (Japan's economic growth), Tokyo, 1967. It is widely accepted, however, that the heavy and chemical industries have the common characteristics of greater elasticity of demand for their products in relation to the growth of income, a faster rate of technological development and a bigger impact on other branches of industry.

⁶According to a report on foreign trade by the Ministry of International Trade and Industry (1972), the value added in the heavy and chemical industries in 1960 was more than double the normal value added for the size of population and per capita national product calculated on the basis of a standard development model with data for 22 countries. In 1960 the corresponding figures for the metals, electrical machinery, machinery other than electrical, and transport equipment industries were 4.83, 3.06, 3.52 and 3.32 times greater, respectively.

industries, it was the labour-intensive industries that expanded most rapidly.⁷ They included industries producing electronic equipment, precision instruments, and electrical and textile machinery. Although these activities require advanced technology, they need less investment per worker than the metals, motor-vehicle and petrochemical industries. Fixed capital investment per person employed in the electrical machinery industry is a fourteenth part of that required in the petroleum products industry and less than one-third of that needed in the chemical and steel industries. It is even less than that observed in the textile and food industries in establishments with 20 workers or more (see table 4).

Moreover, the capital required for the manufacture of textile machinery, sewing-machines, cameras, and watches and clocks is even less than that needed in the electrical machinery industry. A similar situation is observable in the transport equipment industry: the fixed capital per worker required for the construction of ships is less than the average needed in manufacturing industry and is less than half that required by the motor-vehicle industry. It is common knowledge that Japan specializes in shipbuilding and supplies over 50 per cent of the world's ships.

⁷For illustrative purposes only, a comparison is made here of the structure of the machinery industry in the United States and Japan. In the latter country the industries producing electrical machinery, ships and some light machines, the production of which has been specially promoted, absorb 47.5 per cent of the persons employed in the metal manufactures and machinery industries and generate 45.2 per cent of the total value added in this sector. The proportions in the United States are considerably lower: 35.8 and 32.9 per cent, respectively.

Table 4
**JAPAN: MANPOWER EMPLOYED, FIXED CAPITAL AND VALUE ADDED
 IN MANUFACTURING, 1966^a**

	<i>Number of persons employed (thousands)</i>	<i>Value added per worker (millions of yen)</i>	<i>Fixed capital per worker (millions of yen)</i>
<i>Total, manufacturing industry</i> ^b	7 434	1.30	1.15
Food	674	1.24	1.03
Textiles	880	0.75	0.63
Chemicals and petrochemical products ^c	457	2.59	2.81
Petroleum and coal products	33	3.53	8.73
Iron and steel	451	1.60	3.10
Non-ferrous metals	159	1.88	2.11
Metal manufactures	420	1.10	0.71
Machinery except electrical	741	1.29	0.84
Electrical machinery	839	1.18	0.62
Transport equipment	634	1.54	1.09
Precision instruments	159	1.05	0.50

Source: Ministry of International Trade and Industry, *Kogyo Tokeihyo (Industrial statistics) 1966*, Tokyo, 1968.

^a Establishments with 20 workers or more.

^b Including other manufacturing sub-sectors.

^c According to Japan's industrial classification. Does not include rubber manufactures, pulp processing, etc.

obtain a considerably higher value added per worker than the food, textile, wood and leather manufactures and other industries (see table 4).

Japan's greater specialization in these industries is strikingly reflected in the structure of its exports. Official statistics show that in 1964 the products of highly labour-intensive industries (excluding the production of transport equipment) represented approximately 30 per cent of Japan's total exports and accounted for 52 per cent of the total value of

exports of manufactures produced by the heavy and chemical industries, while the corresponding proportions for the Federal Republic of Germany, France and Italy were around 30 per cent. In contrast, the products of highly capital-intensive industries (including transport equipment) represented only 28 per cent of total exports from Japan, compared with over 45 per cent of those of the three European countries considered. This difference is even more pronounced if ships, the production of which has

Table 5
**INDUSTRIALIZED COUNTRIES: EXPORTS OF MANUFACTURES ACCORDING TO
 THE CHARACTERISTICS OF THE INDUSTRIES, 1964^a**

(Per cent)

	Japan	Federal Republic of Germany	France	Italy
<i>Products of the heavy and chemical industries</i>	57.4	80.5	69.4	59.7
<i>Highly capital-intensive industries</i>	27.6	56.5	44.6	43.5
Heavy equipment and machinery	18.8	44.6	31.8	33.7
Ships	7.4	1.4	1.2	1.0
Other products	8.8	11.9	12.8	9.8
<i>Relatively labour-intensive industries</i>	29.9	24.1	25.4	16.2
Light machinery	12.7	10.2	6.1	6.9
Other products	17.2	13.9	19.3	9.3
<i>Products of light industries</i>	42.6	19.5	30.0	40.3

Source: Ministry of International Trade and Industry, *Official report on foreign trade, 1965*.

^aAccording to the classification prepared by the Japanese Ministry of International Trade and Industry, by SITC groups (three digits).

somewhat similar characteristics to the first group of industries, are excluded (see table 5).

In the period 1955-1965 the production and exports of the more labour-intensive heavy and chemical industries increased more rapidly than those of other industries (see tables 6 and 7). In other words, the industries which grew fastest had the advantage of being less capital-intensive, yet attained a high level of productivity and a high rate of exports. In certain periods, moreover, some of these industries substantially increased their productivity without increasing their capital in proportion to the manpower employed.⁸ This situation

is attributable to various rationalization measures and appreciable technological progress based on the transfer and adaptation of foreign technology (see table 8).

⁸In the industries producing machinery other than electrical, for example, the index of persons employed in 1960 rose to 193 (1950=100) and the productivity index to 132, while the index of fixed capital per worker remained at 92.5. Even more striking results were obtained in the electrical machinery industry, since the index of persons employed rose to 287.3 in 1960 and the productivity index to 191.5, while the index of fixed capital per worker remained constant at 101.

Table 6
**JAPAN: COMPOSITION AND GROWTH OF EXPORTS OF MANUFACTURES,
 BY GROUPS OF PRODUCTS CLASSIFIED ACCORDING TO
 CAPITAL INTENSITY^a**

(Per cent)

Groups of products	Composition		Cumulative annual growth rates	
	1955	1965	1956-1960	1961-1965
Highly capital-intensive industries				
Products of the heavy and chemical industries	28	31	10.6	24.6
Products of light industries	39	26	15.2	8.4
Highly labour-intensive industries				
Products of the heavy and chemical industries	15	35	28.5	24.0
Products of light industries	18	8	10.3	2.9
Exports of manufactures as a percentage of total exports	89	95	-	-

Source: Economic Planning Agency, *Economic Survey of Japan, 1967*.

^aThe manufactures are classified according to the fixed capital per worker used to produce the article concerned, excluding foodstuffs.

2. The role of small and medium - scale industry

Another important factor accounting for the extraordinary absorption of manpower by manufacturing industry was the parallel development of small and medium-sized enterprises and large-scale enterprises in both the heavy and chemical industries and light industry. The co-existence of industrial establishments of different sizes in Japan is known as "dual structure". At the beginning of the industrial boom, investment was concentrated in the large-scale industries, and particularly in the heavy

and chemical industries. The small and medium-sized industries also grew steadily throughout the period and, although their relative share in the value added declined somewhat, the rate of growth of their output was exceedingly high.

The most important feature of this process was that, in absolute figures, these industries absorbed considerable manpower. According to the manufacturing censuses taken in the period 1955-1965, the number of persons employed by small and medium-scale

Table 7
**JAPAN: PRODUCTION OF MANUFACTURES, BY GROUPS OF PRODUCTS
 CLASSIFIED ACCORDING TO CAPITAL INTENSITY^a**
 (Per cent)

Groups of products	Composition		Cumulative annual growth rates		Value of imports compared with domestic production ^b	
	1955	1965	1956-1960	1961-1965	1955	1965
Highly capital-intensive industries						
Products of the heavy and chemical industries	37.7	34.6	17.8	13.7	5.4	5.4
Products of light industries	19.6	17.4	16.8	13.9	3.7	3.0
Highly labour-intensive industries						
Products of the heavy and chemical industries	25.6	36.6	27.3	14.9	0.8	1.5
Products of light industries	17.1	11.4	14.0	10.3	0.5	0.9

Source: Economic Planning Agency, *Economic Survey of Japan, 1967*.

^aSee table 6.

^bValue of imports divided by the sum of the value of imports and domestic production.

industry⁹ increased by 2.81 million, while the number of persons employed by large-scale industry grew by 1.61 million. The high percentage of manpower absorbed by small and medium-scale industry in Japan is also clear from a comparison with other countries (see tables 9 and 10).

The Japanese small and medium-sized industries may be classified in three major groups: producers of consumer goods; those supplying large-scale enterprises with raw materials, components and other inputs; and local industries

specializing in certain articles, particularly for export.

Generally speaking, the large-scale enterprises specialized in activities in which they were most likely to achieve a high level of productivity with their larger scale of production, substantial investment and modern techniques. Japan has a great many enterprises that are on a par with or even ahead of European enterprises in terms of capital invested per worker, productivity per worker, etc.¹⁰ In contrast, investment in small and medium-sized enterprises was

⁹According to the legislation in force in Japan, small and medium-scale enterprises are considered to be such industrial establishments as employ less than 300 workers.

¹⁰An interesting analysis on the subject appeared in Economic Planning Agency, *Economic Survey of Japan, 1967*, Tokyo, 1968.

Table 8
**JAPAN: INCREASE IN PRODUCTIVITY AND LEVEL OF WAGES IN MANUFACTURING,
 BY GROUPS OF PRODUCTS CLASSIFIED ACCORDING TO
 CAPITAL INTENSITY^a**

<i>Groups of products</i>	<i>Labour productivity (cumulative annual growth rates)</i>		<i>Level of wages (1 000 yen per year)</i>		<i>Increase in wages (cumulative annual growth rates)</i>
	<i>1956- 1960</i>	<i>1961- 1965</i>	<i>1955</i>	<i>1965</i>	<i>1956- 1965</i>
Highly capital-intensive industries					
Products of the heavy and chemical industries	9.6	10.3	217	491	8.5
Products of light industries	7.8	8.9	126	354	8.8
Highly labour-intensive industries					
Products of the heavy and chemical industries	12.5	9.6	199	464	10.9
Products of light industries	7.7	6.9	110	293	10.3

Source: Economic Planning Agency, Economic Survey of Japan, 1967.

^aSee table 7.

Table 9
**JAPAN: MANPOWER EMPLOYED AND VALUE ADDED IN THE MANUFACTURING
 SECTOR, BY SIZE OF ENTERPRISE**
(Percentage distribution)

	<i>1956</i>			<i>1966</i>		
	<i>Light industry</i>	<i>Heavy and chemical industries</i>	<i>Total</i>	<i>Light industry</i>	<i>Heavy and chemical industries</i>	<i>Total</i>
<i>Manpower employed</i>						
Plants with less than 300 workers	82.9	55.6	72.3	82.2	54.5	69.7
Plants with 300 workers or more	17.1	44.4	27.7	17.8	45.5	30.3
<i>Value added</i>						
Plants with less than 300 workers	65.6	38.0	51.1	71.8	39.4	53.5
Plants with 300 workers or more	34.4	62.0	48.9	28.2	60.6	46.5

Source: Economic Planning Agency, Economic Survey of Japan, 1968.

Table 10
**INDUSTRIALIZED COUNTRIES: PERSONS EMPLOYED IN MANUFACTURING,
 BY SIZE OF ENTERPRISE, 1958**

(Percentage distribution and number of persons employed)

Size of enterprise	Japan	United States	United Kingdom	Federal Republic of Germany ^a
Less than 100 workers	58.4	27.0	20.2	48.4
100-499 workers	19.7	30.2	31.6	22.9
500 workers or more	21.9	42.8	48.1	28.7
(Total number of persons employed, thousands)	(6 664)	(15 394)	(7 680)	(9 932)

Source: Economic Planning Agency, *Economic Survey of Japan, 1965*,
 1955.

generally smaller and they continued to absorb a very high proportion of labour.

Some examples are given below.

Various indicators show that the scale and technology adopted for steel production in Japan were far superior to those used in the United States and the European countries.¹¹ The daily production of iron in blast furnaces in 1966 was 1 644 tons compared with 1 268 tons in the United States, and was more than twice the average for the major European countries. Another important indicator is the use of the LD converter. That same year, 55 per cent of Japan's steel output was produced in LD converters, compared with 17.4 per cent in the

United States and 19.1 per cent in the Federal Republic of Germany.¹² Moreover, production of raw steel per worker was 160 tons in 1966, almost equalling the United States output. It is a well-known fact that the Japanese steel industry has for some years had the lowest production costs.

Although steel was produced almost exclusively by large-scale industries, nearly 60 per cent of all steel products were manufactured by small and medium-sized industries. In the case of the forging and casting of steel and the casting of iron the proportion was over 70 per cent (see table 11).

The textile industry provides an even clearer example. With the vigorous expansion of the manufacture of synthetic fibres, which requires substantial investment and modern techniques and absorbs less manpower than the production of cotton textiles, millions of small and medium-sized dyeing plants and spinning mills continued to employ large numbers of workers and adapted their

¹¹See the official report on foreign trade, 1967 (in Japanese) of the Ministry of International Trade and Industry of Japan.

¹²The LD converter was introduced in Japan in 1957, much earlier than in other countries. The largest blast furnace in the world, with a daily capacity of 4 500 tons, has been in use in this country since 1966.

Table 11
**JAPAN: PERSONS EMPLOYED AND VALUE ADDED IN THE STEEL INDUSTRY,
 BY SIZE OF ENTERPRISE, 1966**

(Percentage distribution and absolute values)

		Size of plant			Total	
		Less than 100 workers	100-299 workers	300 workers or more	Percent- ages	Absolute values ^a
<i>Total, steel industry^b</i>						
	A:	24.6	12.8	62.6	100	485
	B:	18.0	10.8	71.2	100	743
Production of iron by blast furnace						
	A:	0.0	0.0	100.0	100	148
Rolled steel products						
	A:	0.9	7.5	91.6	100	81
Steel products (tubes, bars, wire rod, etc.)						
	A:	32.0	27.6	40.4	100	80
Forging and casting of steel (forged or cast steel products)						
	A:	39.5	25.4	35.1	100	34
Casting of iron (cast iron products)						
	A:	61.5	14.6	23.9	100	95

Source: Ministry of International Trade and Industry, *Kogyo Tokeihyo* (Industrial statistics), 1966.

Note: A: persons employed; B: value added.

^aA: thousands of persons; B: thousands of millions of yen.

^bIncluding other sub-sectors.

technology to the use of synthetic material.

In the aforementioned report on foreign trade,¹³ it is considered that the factors which enabled Japan to become the leading exporter of synthetic fibre in all the stages of its manufacture (filament, fibre, yarn and fabric) in 1965 were: (i) investment in plants for the large-scale production of raw material, thus making it possible to increase productivity and obtain a large enough physical production capacity to leave a

considerable margin for export; (ii) utilization of the technological experience gained in the use of natural fibres for the manufacture of synthetic textile products (dyeing plants, spinning mills, etc.); and (iii) use of the established channels for marketing Japan's traditional textile exports.

In connexion with synthetic fibre textiles, mention must be made of the petrochemical industry, which produces the raw material. Considerable amounts were invested and advanced techniques were introduced at an accelerated pace in this industry, as in the case of steelmaking. The government policy established in 1955 to promote this

¹³ Ministry of International Trade and Industry, *op. cit.*

industry was a highly important step in orienting and promoting its expansion. According to the above-mentioned report on foreign trade¹⁴ since 1963 Japan's total production capacity has been the largest in the world except for that of the United States; in 1965 the scale of production of ethylene per plant was 107 000 tons, second only to the United States output. In 1967 the Government decided to promote only the installation of petrochemical complexes with a capacity of not less than 300 000 tons of ethylene.

There are several other cases of division of labour between large-scale enterprises and small and medium-sized enterprises, e.g., the motor-vehicle, ship-building and non-ferrous metals industries. The major motor-vehicle industries reached a scale of production equal to that of the European countries, which enabled them to invest considerable amounts in bodywork dies, transfer machines, etc.; the small and medium-sized industries, on the other hand, specialized in certain motor-vehicle parts (see table 12).

To sum up, the large-scale enterprises which were able to take full advantage of the new techniques were completely modernized, and they left the small and medium-sized industries a broad field in which it was still advantageous to use considerable labour and less capital and did not generally compete with them.

Consequently, in the process of rapid industrial growth and structural changes in the manufacturing sector, with emphasis on the heavy and chemical industries, enterprises of different sizes showed almost parallel growth. Small and medium-scale industry used ever cheaper and better basic inputs (steel,

petroleum products, synthetic raw materials, non-ferrous metals and electric power) produced by the large-scale industries, and they in turn supplied the components and other inputs required by the large industries; thus their scale of production increased as the enterprises which absorbed their products expanded.

This process is borne out by two interesting facts. First, trade in products between large-scale enterprises and small and medium-scale enterprises increased. A study based on input-output matrices showed that at the beginning of the period considered (1951-1955) the sales of small and medium-sized enterprises were destined mainly for final consumption. The same analysis in 1960 showed that there had been an appreciable increase in sales by those enterprises to the major enterprises, and likewise in sales among themselves. Sales by major enterprises to small and medium-scale enterprises also increased considerably.¹⁵

The simultaneous development of enterprises of different sizes is also evident from the indirect exports of small and medium-sized enterprises. Approximately 18 per cent of Japan's total exports of electrical machinery represent indirect exports, i.e., parts incorporated in articles exported by large-scale enterprises but originally produced by small and medium-sized enterprises. The proportions for transport equipment, precision instruments and other machinery are roughly 16 per cent, 10 per cent and 10 per cent, respectively. The average for all manufacturing industry is

¹⁴ *Ibid.*

¹⁵ S. Okita and others (ed.), *The Japanese economy: Present situation and prospects* (in Japanese), Tokyo, 1965.

Table 12
**JAPAN: PERSONS EMPLOYED AND VALUE ADDED IN THE MOTOR-VEHICLE
 INDUSTRY, BY SIZE OF ENTERPRISE**

(Percentage distribution and absolute values)

	Size of plant			Total	
	Less than 100 workers ^a	100-499 workers	500 workers or more	Percent- ages	Absolute values ^b
Total motor-vehicle industry					
1962: A	28.5	24.1	47.4	100	324
B	12.2	14.8	73.0	100	404
1966: A	26.0	21.0	53.0	100	456
B	13.3	13.6	73.1	100	690
Production of motor vehicles and bodywork					
1962: A	4.9	11.1	84.0	100	121
1966: A	5.1	5.8	89.1	100	158
Production of motor-vehicle components					
1962: A	42.5	31.8	25.7	100	203
1966: A	37.7	27.9	34.4	100	293

Source: Ministry of International Trade and Industry, *Kogyo Tokeihyo* (Industrial statistics), 1962 and 1966.

Note: A: Persons employed; B: Value added.

^aThe figures for 1962 exclude establishments with three workers or less.

^bA: Thousands of persons; B: Thousands of millions of yen.

7.9 per cent.¹⁶ These percentages indicate a slightly rising trend. Direct and indirect exports of small and medium-sized enterprises represented 54 per cent of Japan's total exports of manufactures in 1966.

Lastly, attention is drawn to a group of small and medium-sized enterprises

¹⁶ See "Export promotion in Japan and its application to Latin America", *Economic Bulletin for Latin America*, Vol. XV, No 1, table 16 (United Nations publication, Sales No E.70.II.G.6).

which are engaged in the production of export articles and are installed in different parts of the country according to their line of specialization. They include industries producing silk fabrics, musical instruments, steel cutlery, knives, umbrellas, skis and other sports items, binoculars, tiles, chinaware and ceramics, furniture, spectacles, toys, bicycles, cigarette lighters, articles of antimony, precious stones, tools, etc. There are 346 localities specializing in the production of specific articles, 120 of which export a high proportion of their total output. According to an

official report on these 120 localities,¹⁷ their industries employ over 570 000 persons and in 1970 they exported, on average, 41.6 per cent of their total output, which is much higher than the average for small and medium-sized enterprises in general (approximately 8 per cent).

Most of these localities are in rural areas and an estimated 70 per cent of the persons employed in the industries established there were originally rural workers usually living in the same area. It should also be noted that in over 50 per cent of the localities the boom in production took place in the 1960s, although the majority of them have existed since before the war. Although the industries established in these localities do not need to produce on a large scale or invest large amounts, they do require considerable labour and a certain level of specialized techniques. Most of the articles they manufacture are also produced by small and medium-scale industry in other countries, but the interesting feature about Japan is that these industries are concentrated in different parts of the country according to the articles they produce.

The industries thus established have the following advantages:¹⁸

(a) There is always a wide range of sizes, designs, colours, qualities, etc., to be found in the individual localities, since the same type of article is produced in each. These industries are the most suited to the production of articles of which a great variety is required.

¹⁷ Ministry of International Trade and Industry, *Chushokigyo Hakusho* (Official report on small and medium-scale enterprises, 1971) Tokyo, 1972.

¹⁸ *Ibid.*

(b) Final consumers or importers identify the articles by the name of the locality, which helps to stabilize sales. Since the articles are produced on a small scale, it is not easy for the brands of the individual producers to become known, as in the case of products of large-scale enterprises. At the same time, owing to the concentration of manufacturers it is easier to establish an efficient system of marketing.

(c) In many cases the enterprises can specialize in certain components or sub-processes in the manufacture of the product of the locality concerned, thereby achieving a more advanced degree of specialization and higher productivity.

(d) It is also possible to develop common activities in connexion with marketing the products, make joint purchases of materials and machinery, carry out joint technical research, etc.

In Japan, criticisms were levelled at a style of industrial development which permitted the simultaneous expansion of enterprises of different sizes, but no clear alternative has been suggested. Basically, the criticism referred not to the co-existence of large-scale enterprises and small and medium-scale enterprises, but to the considerable gap that existed, and still exists, between the two types of enterprises as regards productivity and wages. These gaps have generally been due to the small volume of investment and limited introduction of technology in the small and medium-sized enterprises, owing, among other factors, to the industries' restricted access to bank financing and their limited self-financing capacity.

It is important to note, however, that as industrialization advances these differences began to shrink. The increase in productivity per worker was greater in the small and medium-sized industries

than in the major industries in 1961-1966, whereas in 1956-1961 the opposite had occurred.¹⁹ Likewise, in the period 1962-1970, for which more detailed figures are available, the productivity increase in the smaller enterprises (employing 20 to 299 workers) was greater than in the larger enterprises (over 300 workers). It should also be noted that even in the main branches of the machinery industry (electrical machinery, machinery other than electrical, transport equipment) the productivity of the smaller enterprises increased by more than that of the major enterprises (see table 13).

At the same time, the differences in wages according to the size of enterprise diminished, and have practically disappeared in the case of the young workers in the last few years.

The increase in productivity of the small and medium-sized enterprises is attributable to the increasing expansion of investment and the introduction of technology. Although at the outset these enterprises were unable to invest as much as the large-scale enterprises, in subsequent years their investment grew more rapidly.²⁰

¹⁹ In the period 1961-1966 the productivity increase in the smaller enterprises of the heavy and chemical industries was 171.3 per cent, compared with 161.4 per cent in the larger enterprises (see "Export promotion in Japan...", *op. cit.*, table 13).

²⁰ The level of fixed capital investment by the small and medium-sized enterprises was 3.37 times higher in 1969 than in 1961. The figure for large-scale enterprises was 2.33 times. In this case, small and medium-sized enterprises were considered to be those with a capital of between 2 million and 50 million yen, and large-scale enterprises those with a capital of 50 million yen or more.

The rapid rise in the investment of the small and medium-sized enterprises was caused by a number of factors. In the first place, more funds, both in absolute and relative terms, were available from the private financial institutions²¹ set up for such companies: these resources represented about 11 per cent of the total funds of Japanese financial institutions in the middle of the 1950s, and rose to 16 per cent by the middle of the following decade. Furthermore, the Finance Corporation for Medium and Small Enterprises, a semi-public body, increased its financing. In addition, these companies were also able to make use of the increasing amount of financing offered by the commercial banks, particularly in periods of recession when the big companies were not interested in making large-scale investments.

Moreover, according to various indicators the medium and small enterprises made considerable technological progress as a result of the introduction of more foreign technology and of greater investment in technological research. Still more important for their progress was the assistance they received from State and provincial technological institutes and the technological co-operation provided by the large enterprises. The technological institutes set up throughout the country, primarily to serve medium and small industry, specialized in research connected with the industrial activity of their own zone, such as the manufacture of china, iron casting, dyeing and design of silk fabrics, etc.

The large companies helped to improve the technology of the compa-

²¹ Including the Central Co-operative Bank for Commerce and Industry, credit associations (*Shinyo Kinko*) and the mutual loan and savings banks.

nies providing their components or inputs through various forms of co-operation: loan of specialists, exchange of experience, contracts for the transfer of technology, etc.

One interesting indicator is the increase in the contractual transfer of technology between medium and small enterprises and large companies. Payments by the former to the latter under this heading amounted to 1.7 million dollars in the two years 1966-1967. It should be stressed that the inverse process was also accentuated due to the technological progress of the small and medium-size companies, which received the equivalent of 660 000 dollars in the same period from the large companies.²² Taking into account other free transfers, it may be seen that technological co-operation among enterprises with different scales of production was highly important.

It should also be pointed out that a very important factor in the technological progress of the medium and small companies was the introduction of systems of quality control and organization of production based on an increasingly widespread use of standardization. This had a variety of effects; it not only improved the quality of the products but also helped to rationalize the production system and encouraged specialization through the vertical integration of manufacturing production. Together with the introduction of advanced technology, it led to a considerable increase in productivity.²³

An important feature of this process is that while increasing productivity immensely it requires little investment, although the companies must work

²² Economic Planning Agency, *Economic Survey of Japan, 1969*.

together. Government guidance and assistance, as well as the understanding and collaboration of the private sector, have been very important.

Finally, this process of industrialization was not wholly spontaneous, since the Government's attitude played a significant role. The Government attached particular importance to its policy for medium and small industries, for which it set up a body within the Ministry of International Trade and Industry.²⁴

It should be added that Japanese industrialization has also been affected by the special relationship between companies and workers — a peculiar system of "employment for life", with workers' unions basically organized by enterprise rather than by job or trade as in other countries. Without this system of stable employment, for example, the companies would not have been able to invest heavily in the training of their workers. Furthermore, this form of union organization also made a large contribution to the simultaneous development of the large and the medium and small enterprises without serious labour difficulties, and thus determined other unusual features of Japanese industrialization.

²³ The introduction of standards is also closely linked to quality control in exports of manufactures. The example of sewing machines and other light machinery is well known (see "Export promotion in Japan . . .", *op. cit.*, chapter IV, and also Asian Productivity Organization, *Industrial Standardization in Japan*, Tokyo, 1971.)

²⁴ It would be well worthwhile making an exhaustive assessment of Japanese policy in relation to medium and small enterprises, from the standpoint of the situation of developing countries (see Ministry of International Trade and Industry, *Outline of Policy for Smaller Enterprises — Japanese Experience* published by the Asian Productivity Organization, Tokyo, 1969.)

3. *Choice of technology and industries*

As may be seen from the preceding analysis, the absorption of a large amount of labour by the manufacturing industry was largely due to two features which characterized manufacturing development in Japan: the unusual structure of the industry, in which certain sub-sectors were particularly important, and the coexistence and simultaneous development of companies of different sizes.

This process was not the result of a deliberate policy to choose technology and industries which would directly absorb a high quantity of labour.

Although after the war there was a real and potential labour surplus in Japan, a broad employment policy was not adopted to deal directly with the problem. Instead, various measures of limited scope were adopted, such as the allocation of special funds for the construction of the infrastructure. In addition, no attempt was made to absorb labour through the adoption of labour-intensive technology.²⁵

²⁵The choice of technology was usually guided by factors other than employment. For example, in its early stages the Japanese motor-vehicle industry adopted various special techniques, such as the use of synthetic plastic dies for moulding bodies. This method is usually used in the manufacture of bodies at the experimental stage, but with a few changes it became economical for a limited production scale of 500 units or less. In addition, for a production scale between 500 and 2 000 units per month, simple metal dies were used, while a number of jobs which did not call for great precision continued to be done by hand, such as cutting and bending edges, etc. The methods used in this period were much less capital-intensive than normal methods, and were adopted because the scale of production was small; this was in turn determined by the characteristics of the demand for motor vehicles during that period (see Ministry of International Trade and Industry, official report on technology, 1955).

The adaptation of technology imported into Japan should also be analysed. The economic survey of Japan in 1967 notes that significant technological improvements were made in 60 of the 68 products, manufactured with the use of imported technology, whose production had sharply increased. According to the official study on foreign trade in 1967, over 70 per cent of the imported technology used in the electronic equipment and electrical machinery industries was modified and improved in Japan, and it was precisely thanks to this ability to absorb and improve technology that the electronic industry grew and was oriented towards exports.

However, these improvements and adaptations were generally aimed at increasing productivity, improving the quality of the products and applying imported technology to the manufacture of new products, etc.; it cannot be said that they were directly designed to absorb a larger amount of labour.²⁶

What can be said is that in many cases more advanced technology was introduced only in the main production process, without substantially altering the sub-processes (for example, packing, carriage of intermediate products within the factory, manufacture of some components, etc.), which are usually more labour-intensive. It may be argued that this situation obtained not only in individual factories but also in the majority of the industrial branches and in the manufacturing sector in general, since advanced technology was applied

²⁶On the other hand, it is not true either, at least in the 1950s, that advanced technology was introduced to save labour.

Table 13
JAPAN: INCREASE IN PRODUCTIVITY OF MANUFACTURING, BY SIZE OF ENTERPRISE
(Per cent)

	<i>Increase in value added per worker, 1962-1970</i>		<i>Index of value added per worker, 1970 (average for manufac- turing industry = 100)</i>	
	<i>Plants with 20-299 workers</i>	<i>Plants with 300 workers or more</i>	<i>Plants with 20-299 workers</i>	<i>Plants with 300 workers or more</i>
<i>Total, manufacturing industry^a</i>	13.8	13.3	100	100
Food	13.3	10.7	109	85
Textiles	14.1	9.2	72	41
Chemicals and petrochemicals ^b	16.0	17.3	210	189
Petroleum and coal products	17.2	14.1	202	297
Iron and steel	15.7	17.2	138	109
Non-ferrous metals	15.1	15.3	127	115
Metal manufactures	14.4	13.2	110	88
Machinery except electrical	13.9	13.2	115	102
Electrical machinery	11.4	10.9	76	90
Transport equipment	13.3	11.2	92	101
Precision instruments	12.6	12.6	83	58
(Value added per worker in thousands of yen per year)			(1 870)	(3 159)

Source: Ministry of International Trade and Industry, Kogyo Tokeihyo (Industrial statistics), 1966.

^aIncluding other manufacturing sub-sectors.

^bAccording to Japan's industrial classification. Does not include rubber manufactures, pulp processing, etc.

in the processes in which the large industries specialized, while the rest of production (various sub-processes such as the manufacture of some components, etc., by smaller companies) continued to use methods which are relatively labour-intensive.

In any event, it can hardly be said that choice of technology, or the

adaptation of imported technology, was one of the main causes of the absorption of a large amount of labour by the manufacturing sector.

In addition, the general lines of the industrial policy did not aim to stimulate the industries which were apparently more labour-intensive. The Ministry of International Trade and Industry, which

is responsible for preparing and carrying out industrial policy, points out in this connexion that it was not enough for Japan to centre its activity on textile and miscellaneous industries, the so-called simple industries, which call for a large amount of labour.

"If Japan had specialized in these industries the economy would have come to an almost permanent standstill and the country would not have been able to escape from poverty. Fortunately, however, the objective was to establish highly capital- or technology-intensive industries, such as steel, oil refining, petrochemicals, motor vehicles, aircraft, industrial machinery and the electronics industry, including computers. To encourage these industries was to flout the postulates of short-term economic logic. Nevertheless, from the long-term, dynamic point of view Japan inevitably had to stimulate these industries as quickly as possible in order to be able to provide employment for its 100 million inhabitants and raise the standard of living to a level comparable to that of the United States and the European countries, since those industries are characterized by the high income-elasticity of the demand for their products, their rapid technological progress, their greater side-benefits and a faster growth of labour productivity".²⁷

Among the heavy and chemical industries whose installation was encouraged, naturally those grew fastest which had the greatest domestic and external demand. Exports grew fastest in the industries which could take advantage of the favourable factors existing in Japan,

such as relatively cheap labour and a certain level of technology, to increase their competitive capacity. Thus it was a logical decision for the Ministry of International Trade and Industry to begin applying the above-mentioned policy by promoting exports of light machinery. According to the report quoted, the first step in implementing the promotion policy for heavy and chemical industries consisted in stimulating the light machinery industry, which produced sewing machines, binoculars and cameras. It should be stressed that the policy adopted for these products was to promote simplification, standardization and specialization, and this was a great boon to the development of the machinery industry.

On the other hand, the highly capital-intensive industries whose development was also promoted, such as the steel, petrochemical and chemical industries, received guidelines so that by means of large investment, the introduction of advanced technology and large-scale production, their costs would be reduced to the lowest possible levels, comparable to those of the corresponding industries in the European countries and the United States. Exports of these industries also grew rapidly but for very different reasons than in the case of light machinery. The shipbuilding industry possibly falls in between these two types of industries.

A number of industries which used the raw materials produced by the highly capital-intensive industries were able to increase their competitiveness enormously because they were supplied with those materials at prices which were the same as or lower than those of the international market. Besides, these labour-intensive industries enjoy other favourable conditions of their own, such as relatively cheap labour, advanced

²⁷ Ministry of International Trade and Industry, "Industrial policy of Japan", *Japan Reporting*, November 1973. This paragraph and the next are based on this report.

technology and rationalized production. The extraordinary development of the Japanese electronics industry is a case in point, and was also favoured by government policy, through legislation to promote it.

The five-year plans for steel, coal, electricity and ammonium sulphate, and the special measures to promote petrochemicals, synthetic fibres and plastics, enabled industrial inputs to be supplied cheaply to the rest of the manufacturing sector. Furthermore, the legislation to promote the mechanical and electronics industries (adopted in 1956), and exports of light machinery, provided good support for the labour-intensive industries which also use advanced technology, as was pointed out above. The plans for the expansion of the merchant navy are also considered important for the development of the shipbuilding industry.

For some industries the choice of products was also very important, as was, frequently, the creation of their own models adapted to the conditions of demand and production.²⁸ For example, the motor vehicles produced in Japan in the early days of the industry had special characteristics: they were more robust on bad roads, capable of carrying bigger loads than the lorries produced in other countries although of a similar size, and more economical in the use of petrol. As an illustration, mention may be made of the large-scale production of three-

wheeled vans which were better adapted to the very narrow roads of Japan, and the very small passenger cars with 360 c.c. engines, whose introduction was particularly promoted by the Government.

Exports of motor vehicles from Japan were at first mainly lorries and buses, where it was not necessary to produce on so large a scale as for passenger cars in order to lower costs; it was thus possible to increase Japanese competitiveness with other countries producing the same products. Similar examples may be given from other industries. Many products of the electronics industry were thought up and perfected in Japan in accordance with the requirements of domestic and external demands. One well-known example is the application of transistors and diodes—originally invented for industrial use—to domestic appliances. In addition, various articles whose exports grew rapidly, such as watches, cameras and motor-cycles, were originally manufactured for the domestic market and subsequently began to be sold abroad. In other words, many products began to be exported after domestic demand had been satisfied and costs reduced, quality improved and competitiveness raised. Among such products, exports grew more rapidly in the case of those produced in Japan in more advantageous conditions than in other countries, because of the availability and low cost of various factors of production. That is to say, in Japan there was a process of natural selection of products, with specialization in those products which could compete more easily in foreign markets, although government policy also helped to accentuate the process. Its results were

²⁸ So too, at first, was the need to bear in mind the industrial materials available within the country, because of the shortage of foreign exchange to import foreign raw materials. A case in point is the production of vinylon using domestic raw materials.

reflected very clearly in the structure of Japanese exports. (See tables 5 and 6.)²⁹

It may be deduced from the above that in Japan the great relative growth of employment in the manufacturing sector was not necessarily the result of the choice or adaptation of labour-intensive technology or the deliberate choice of labour-intensive industries, but rather the spontaneous growth of the production of articles directly or indirectly employing a relatively large amount of labour.

It should also be recalled that if industrialization had not been vigorously promoted, employment would not have grown to such an extent, as was pointed out by the previously quoted report,³⁰ despite the fact that in the short term the heavy and chemical industries did not appear to be very suitable for Japan. Because of their special features, these

industries were able to increase their productivity rapidly by means of technological progress, which enabled funds to be saved for greater investment and thus further technological progress to be introduced, which in turn accelerated the rise in productivity. The higher demand for capital goods created by such investment, and the growth of demand for consumer durables stemming from the greater purchasing power of consumers, stimulated the growth of various new industries. In addition, higher productivity, together with the availability of relatively cheap labour, enabled Japanese industries to acquire the necessary competitiveness for international markets. Rapid industrialization, with emphasis on the heavy and chemical industries, thus created good employment opportunities in the long term.

4. Development of the agricultural sector and of employment

Agricultural production in Japan grew considerably after the war, although not as greatly as industrial production. The index of agricultural production rose from 90.4 in 1955 and 85.4 in 1956 (1960 = 100) to 112 in 1965, reaching a

ceiling of approximately 131 at the end of the 1960s. Total rice production rose from 9.65 million tons in 1950 to 14.5 million tons in the period 1967-1969 (an annual rate of 2.4 per cent), but subsequently tended to decline as a result of the policy followed to discourage rice production. The yield per hectare of rice rose from 3.27 tons in 1950 to 4.5 tons at the end of the 1960s. Between 1958 and 1967 food production also increased (at an annual rate of 6.3 per cent), as did livestock (9.7 per cent), vegetables (5.3 per cent) and raw materials for industrial processing such as tea, beets, tobacco and oil-seeds (at an annual rate of 2.7 per cent); on the other hand, there was a considerable fall in the production of wheat and potatoes, which have always

²⁹On the other hand, this process of product selection obviously did not apply to exports of highly capital-intensive industries such as steel, petrochemicals, etc., which generally produce industrial materials with uniform specifications. It may be pointed out, however, that the type of steel which did not call for very advanced technology or high precision was the first to be sold abroad, since the steel produced for export had to meet or exceed the quality standards established in other industrialized countries.

³⁰See footnote 27.

been relatively unimportant in Japanese agricultural production.

As is well known, agricultural land per person employed in agriculture has always been very limited in Japan. Following the war it even fell slightly with the conversion of agricultural land into industrial and residential zones. The land cultivated per production unit (normally one family) was only 1.2 hectares in 1967, which represented one-tenth of the European average and 1 per cent of the United States average. (See table 14.)

For this reason, immediately after the war it was considered very difficult to mechanize agriculture, since besides the small size of family farms there were other unfavourable factors such as the specific features of rice cultivation (the need to flood paddy fields, etc.) and the geographic nature of the agricultural zones (high percentage of cultivated areas in mountainous zones; cultivation of rice and other products in terraces on the sides of valleys).

Nevertheless, despite these unfavourable factors, considerable progress has

Table 14
SOME AGRICULTURAL INDICATORS OF INDUSTRIALIZED COUNTRIES, 1967

	Japan	European Economic Community	United States
Number of persons employed in agriculture (thousands)	10 270	11 148	3 844
Number of persons employed for every 10 hectares	14.9	1.6	0.1
Average surface area cultivated per production unit (hectares)	1.2	11.5	120.1

Source: Economic Planning Agency, *Economic Survey of Japan, 1970*. Data based on statistics of the Organization for Economic Co-operation and Development (OECD).

been made in mechanization. Small machinery (such as tractors) was designed to suit the country's conditions. The number of tractors and mechanical cultivators, mostly of less than 10 H.P., rose from 90 000 in 1955 to nearly 2 million at the end of 1965 and over 3.5 million in 1971. The number of agricultural transport vehicles (vans, etc.) also grew very rapidly, reaching over 1 million in 1972, as did agricultural machinery: crushers and rice-planting, watering and drying machinery.

It is interesting to study the effect of this process of modernization, and particularly mechanization, on employment in agriculture. The number of rural families remained constant at 6 million in the 1950s and dropped slightly, by about 10 per cent, in the 1960s. Most important, however, was that at the end of the 1950s there was a sharp drop in the number of families working full time in agriculture and, on the other hand, a rapid rise in the number devoted simultaneously to agriculture and other

activities. Of this, the greatest rise was in the families whose non-agricultural income was higher than their agricultural income. Thus the number of persons occupied exclusively in agriculture fell from about 14.23 million to 7.87 million between 1955 and 1971. Another important feature is the higher percentage of persons aged 40 or more occupied in agriculture. In 1966, 59.3 per cent of the persons occupied in agriculture were aged 40 or more, and 28.6 per cent 55 or more.

This was due to the fact that in the agricultural zones and surrounding areas non-agricultural job opportunities increased, as did employment in the big cities. In Japan it is increasingly common for the parents to continue working in agriculture while their children are employed in nearby factories and only work in agricultural activities during the busiest period. The growth of employment in rural zones may be attributed both to the growth of local medium-sized and small industries and the decentralization of the large industries which looked for labour in the rural zones, as well as to the expansion of the services sector (commerce, transport, tourism).

This was not really a purely post-war phenomenon, but rather one which had been going on for a long time. An FAO study on agricultural development in Japan³¹ pointed out, for example, that some large industries were installed in rural zones in the initial period of industrialization. These included a wide variety of industries and not merely those dependent on domestic agricultural raw materials, such as the food

³¹Japan FAO Association, *Agricultural Development in Modern Japan*, Ogura Takekazu (ed.), Tokyo, 1966.

processing and silk winding and spinning industries. These industries unquestionably had a strong impact on employment opportunities. Before 1883, approximately 80 per cent of factories were scattered in rural zones. At that time more than 30 per cent of persons occupied in agriculture had a second job. According to the first agricultural census of 1920, 45 per cent of agricultural workers had a second job. The census also indicates that the relatively small industries established in rural or urban zones, which used a large amount of labour, were not inefficient industries artificially trying to revive traditional, backward methods merely to exploit additional labour; on the contrary, they were mostly highly productive, and represented a refined state of technology suited to the proportion of factors of production which existed in Japan.³²

The FAO study quoted above also mentions the effect of Japanese rural industrialization. Besides contributing to industrial growth in general, the small industries scattered throughout the rural zones served to bridge the gap between industry and agriculture. On the one hand, they offered complementary employment and income to the agricultural workers, thus relieving the pressure on

³²According to Ogura Takekazu (ed.), *op. cit.* the installation of factories in rural zones of Japan at the end of the nineteenth century was primarily influenced by the entrepreneurial spirit of the landowners. The landowners, who appropriated about 50 per cent of the agricultural product by way of rent, part of which was used to pay land taxes, used their net income sensibly, largely devoting it to the improvement, marketing and financing of agricultural production, and also to the establishment of many small industries in rural areas, particularly for the processing of agricultural products, such as oil, flour, paper, alcoholic beverages and spinning and weaving factories.

the land; on the other, since they were installed in the middle of agricultural communities, they helped to keep down the social costs of industrialization and thus relatively cheap labour was availa-

ble. Finally, by familiarizing the rural population with industrial methods they facilitated the promotion of more advanced methods in the agricultural sector.

II China's experience³³

In 1949 the economic situation in China was most unfavourable. Heavy industry was very limited, with steel production not exceeding 1 million tons a year; machinery industries were virtually non-existent; the railway network was only about 12 000 miles in length. A few electric power stations supplied the big cities, but in rural areas electricity was practically unknown. Around 80 per cent of the economically active population was engaged in agriculture.

The industrial base and infrastructure in China were smaller that year than in Russia in 1914 and in India when it gained its independence.

For years, moreover, civil wars, foreign armed invasions, floods and other natural disasters had seriously impaired the production base and infrastructure.

It should also be noted that the area of arable land per person engaged in agriculture was very small and, according to estimates, smaller even than in Japan.

Up to the middle of the 1950s, the main feature of China's economic policy was industrial development, special importance being given to heavy industry and central planning. This policy,

which is similar to that adopted by other socialist countries, was later abandoned and an attempt was made to seek its own lines of development in the light of the conditions prevailing in China, such as the predominance of the agricultural sector and its vast population.

This new economic development policy is known as the policy of "walking on two legs", or "the simultaneous development of industry and agriculture". It was launched in 1958 with the Great Leap Forward campaign.³⁴ Subsequently, these principles

³⁴ Although this policy was not implemented until 1958, its roots go farther back. For example, in 1955 the Ministry of Planning said: "Our task is to arrive at a proper distribution of investments among big, medium and small enterprises in the course of industrial construction, and to effect co-ordination and mutual support in the construction of these various enterprises, so as to guarantee not only construction of the necessary priority projects, but also quick returns from investments. Many medium and small scale enterprises can be built in a short time, bringing quick returns on investment and adding to our productive capacity. They not only play an important role in increasing supplies of industrial products and supporting agricultural production but they also constitute an indispensable factor in increasing accumulation of funds for supporting and assisting construction of big priority projects" (Li Fu-chun, *Report on the First Five-Year Plan*, Peking, 1955, cited by Wheelwright and McFarlane, in *The Chinese Road to Socialism*, London, 1970).

³³ For the analysis given in this chapter use was made almost exclusively of official information from China and data supplied by officials of the Japanese Government or its agencies.

changed in line with a general development policy with "agriculture as the foundation and industry as the focus". Other objectives were to "develop large, medium and small industries simultaneously" and to "aim at an overall development of forestry, cattle, fishing, and subsidiary industries around the axis of grain production". These policies were fully implemented towards the end of the 1960s.

China's policy pursued the simultaneous development of agriculture and

industry (heavy and light industry; central and local industries; modern and traditional technology). It took this form in view of the fact that the country had over 700 million inhabitants living mainly in rural areas.

It is important to know how this policy solved various development problems in an economy characterized by a shortage of production resources for so large a population. Before evaluating this policy, it may be useful to give a brief summary of its results.

1. Characteristics of economic development and rural industrialization

The first stage of implementation of the aforementioned policy was the period of the Great Leap Forward campaign (in the late 1950s), which fostered the construction of small-scale industrial plants in rural areas throughout the country. These plants were basically designed to provide the inputs and articles required for the execution of various agricultural infrastructure projects, such as irrigation, reforestation, road construction, etc.

The main projects were the construction and installation of hydroelectric plants, agricultural machinery and implement industries, fertilizer industries, and industries for processing agricultural products. The next step was to develop the coal mines, the production of steel, cement and other inputs, and simple machine-tool industries. All these enterprises were small or medium-sized, they were established in the provinces and supplied the necessary elements for the above-mentioned rural industries.

The result was that the average number of plants in each province increased from two to thirty between the years 1957 and 1959. An article

published in 1960 states that in the Great Leap Forward period 3 million factories were installed in China, of which 200 000 survived as firmly established plants.³⁵

In 1958-1959, a large number of small blast furnaces, with a capacity of up to 100 cubic metres each and a total capacity of 43 000 cubic metres, were constructed. Some medium blast furnaces with a total capacity of 24 000 cubic metres were also built, and their production, which was of good quality, amounted to 50 per cent of the total pig iron output (the pig iron output per cubic metre of furnace column in 1959 was 0.85 tons in the small furnaces and 1.49 tons in the big furnaces). In the steel industry, small and medium converters, taking less than 3 tons, were widely used, and produced over 3 million of the

³⁵ According to an article by Shen Li-jen published in *Chingchi yenchin*, 1960, No 3, cited by R. Kojima, "Development of the ideas of the Great Leap Forward under the Cultural Revolution", *The Developing Economies*, December 1971.

11 to 12 million tons of China's output of steel in 1958. In coal mining, medium and small mines produced 40 per cent of total output in 1958 and 1959; 81 per cent of all coal was mined by modern methods, and of this about 24 per cent was obtained by modernized small-scale mining.³⁶ Over 10 000 plants for the extraction of oil from shale, with an annual capacity of less than 100 tons each (as well as 100 medium plants and 500 medium refineries) were built, their total capacity amounting to 1.2 million tons or approximately 80 per cent of domestic output in 1958. In addition, 2 000 small acid and soda plants had been established in rural areas by May 1959.³⁷

It is important to note that simultaneously with the establishment and expansion of small and medium-sized local industries, some large-scale industries were established. The large-scale industries established in the period covered by the First Five-Year Plan continued to be the main suppliers of iron, steel, heavy machinery, machine-tools and power. Although many rural communes constructed small power plants, large hydroelectric stations such as those at Tankiangkou (900 000 KW), Hsinan (652 000 KW) and Kwangsi (210 000 KW) started operating in 1958-1959. Some large thermal units were also constructed, as for instance the 225 000 KW station at Tsinan. The development of large-scale steel plants

also dates from this period: plants with an annual capacity of 700 000 tons were established at Shenyang and Dairen.³⁸

A similar process took place in the late 1960s, but enriched by the experience gained in the Great Leap Forward and ensuing years.

The progress of rural industrialization in the late 1960s is considered to be unprecedented in China. Before the end of 1970, agricultural machinery plants had been established in over 90 per cent of the 2 300 provinces of China, while small steel plants were constructed in 300 provinces and towns.³⁹ In the same period, local fertilizer plants with a production capacity of 2 000-3 000 tons annually were established in provinces throughout the country. Their combined output represented 43 per cent of China's total production in 1970 and approximately 60 per cent in 1971.⁴⁰ The 1966 figure had been 15 per cent. (See table 15.)

Similarly, it is estimated that the production of small plants in the provinces represented between 12 and 17 per cent of total steel and electric power output in 1970. The corresponding proportion for cement, iron ore and coal was 30 to 40 per cent.⁴¹ As early as 1966, local production of agricultural machinery and implements represented two-thirds of domestic output, and by

³⁸ Wheelwright and McFarlane, *op. cit.*

³⁹ *Jenmin Jihpao*, 27 December 1970, cited by R. Kojima, *op. cit.*

⁴⁰ Official figures given by the Ministry of International Trade and Industry in an article in Japanese on the prospects regarding trade relations between Japan and China, published in *Boeki Seisaku* (Trade Policy), September 1972.

⁴¹ *Ibid.*

³⁶ S. Adler, statement made at the Statistical Institute of India, New Delhi, on 26 December 1959, cited by Wheelwright and McFarlane, *op. cit.*

³⁷ For various other examples of the establishment of small and medium-sized industries, see Wheelwright and McFarlane, *op. cit.*

Table 15
**CHINA: RURAL INDUSTRIAL DEVELOPMENT IN RELATION TO
 TOTAL INDUSTRIALIZATION^a**

Year	Power generation (thousands of KW)			Steel production (thousands of tons)			Fertilizer production (thousands of tons)		
	Total for the whole country	Small rural plants	Percent- age of total	Total for the whole country	Small rural plants	Percent- age of total	Total for the whole country	Small rural plants	Percent- age of total
1953	2 350	5	0.2	1 873	100	5.3	226	-	-
1957	4 454	20	0.4	5 604	163	2.9	630	-	-
1959	9 834	400	4.0	13 350	4 720	35.5	1 330	-	-
1971	12 800 ^b	1 500 ^b	11.8 ^b	21 000	3 500	16.6	16 800	10 000	60.0

Sources: 1953-1970: Reetsu Kojima, "Development of the ideas of the Great Leap Forward after the Cultural Revolution", *The Developing Economies*, December 1971; 1971: article by the Ministry of International Trade and Industry of Japan on prospects regarding trade relations between Japan and China, published in *Boeki Seisaku* (Trade Policy), September 1972.

^aEstimates.

^b1970.

the end of the 1960s the proportion was estimated at around three-quarters.⁴²

This rural industrialization process took place at two levels: the provinces and the communes. At the provincial level, in addition to the agricultural machinery, fertilizer and steel industries already referred to, plants for the production of small electric generators, other electrical machinery and appliances, simple machine-tools, etc. were also established. The rural communes, on the other hand, constructed and operated repair shops for agricultural machinery and implements, and also for transport equipment (lorries, etc.); iron and coal mines; plants producing yarn, insecticides, bricks, plants for processing agricultural products, such as rice and

wheat mills; and facilities for the extraction of oil, sugar refining, preparation of noodles from potato flour, production of wines and liquors, etc. Small 20-30 KW hydroelectric plants capable of supplying from one to three communes were also built in rural areas.

The industries established in the provinces constitute the nucleus of rural industry. The integrated machinery plants in the provinces are responsible for supplying the smaller plants in the communes with equipment and other articles, besides producing dynamos and other electrical products. Lastly, the articles produced in special districts or the capital cities of various provinces include high-quality machine-tools, large tractors, and machinery and equipment for fertilizer and steel plants.

This system of stratification of rural industrial development is an important feature of the 1960s if compared with

⁴² R. Kojima, *op. cit.*

Table 16
CHINA: PRODUCTION OF CEREALS
(Three-year averages)

<i>Three-year periods</i>	<i>Production of cereals^a (millions of tons)</i>	<i>Population at end of three-year period^b (millions of inhabitants)</i>	<i>Production per inhabitant (kilograms)</i>
1952-1954	157.4	581.9	216.4
1957-1959	197.8	648.4	244.0
1960-1962	184.8	692.0	213.6
1963-1965	232.2	735.7	252.5
1971-1973	250.0	879.1	227.5
1952-1973 (cumulative annual growth rate)	2.5	2.2	0.3

Sources: S. Swamy, "Economic growth in China and India", *Economic Development and Cultural Change*, July, 1973; Ministry of International Trade and Industry of Japan, *Report on foreign trade, 1974, 1975*.

^aOfficial figures and estimates.

^bEstimate obtained by extrapolation of the 1953 figures at 2.2 per cent annually.

Table 17
CHINA: MANUFACTURING OUTPUT
(Index: 1956 = 100)

<i>Years</i>	<i>Official series</i>	<i>S. Swamy series</i>
1952-1954	62.0	66.5
1957-1959	184.8	145.5
1963-1965	210.1	161.4
1970	300.8	259.3
1952-1970 (cumulative annual growth rate)	6.7	5.8

Sources: S. Swamy, *op. cit.*

the Great Leap Forward period, when no significance was attached to this aspect.

Another salient feature of rural industrialization in the 1960s is that importance was given to the supply of modern inputs for agriculture. In the 1950s this goal was none too clear; but in the 1960s, and especially in the second half of the decade, rural industrialization was carried out in line with the conditions and the growth of demand in the agricultural sector.

Official data show that in the last 10 years the harvests have been satisfactory; production of cereals amounted to 240 million tons in 1970 and 250 million in 1971. This is the result of two factors: the increase in both modern and traditional inputs due to rural industrialization, and the modernization and

improvement of the infrastructure (see table 16).

Furthermore, manufacturing output has increased considerably in recent years. An increase of around 20 per cent annually was obtained in 1969 and 1970, and over 10 per cent in 1971.⁴³ It is estimated that in the last few years the Chinese economy has maintained a cumulative annual increase of over 10 per cent in the gross national product.⁴⁴ (See tables 17 and 18.)

These figures would seem to indicate that rural industrialization was one of the main instruments of China's economic development in the 1960s. The relationship between rural industrialization and the modernization of agriculture is analysed below.

2. Modernization of the agricultural sector and the employment problem

The area of cultivated land in China is small in relation to the number of inhabitants engaged in agriculture. Only about 12 per cent of the land is cultivated (including the fruit-growing areas), while 80 per cent of the population is engaged in these activities.

How, then, has China modernized its agriculture in the last 20 years?

It is well known that following a transitory period of co-operatives, agricultural communes were organized at the end of 1958. Almost all the rural families joined 70 000 communes, each of which comprised between 5 000 and 50 000 families.⁴⁵ The organization of communes took place at the same time as the campaigns to construct large-scale irrigation works and infrastructure.

In 1958, China established general guidelines for the systematic modernization of agricultural production tech-

niques, which are known as "the eight basic principles of agriculture": deep cultivation and soil improvement, use of fertilizers, expansion of irrigation, seed improvement, intensive cultivation, eradication of agricultural pests and diseases, soil conservation, and modernization of agricultural implements.

As regards mechanization, attempts were made initially to improve and extend the use of traditional agricultural

⁴³Yoshio Akino, "Present and future situation of the Chinese economy", *ESP* (in Japanese), July 1972.

⁴⁴*Ibid.*

⁴⁵At the outset, the number of communes was 26 578, with the participation of 123 million families and an average of 4 637 families per commune (in 1958).

Table 18
CHINA: OUTPUT OF MAIN INDUSTRIAL PRODUCTS
(Three-year averages)

Years	Electricity (billions of KWH)	Coal	Crude petro- leum	Raw steel	Chemical ferti- lizers	Cement	Paper	Sugar	Wood (millions of cubic metres)	Cotton textiles (billions of metres)
1960- 1962	38.3	292	4.8	12	2.9	8.5	2.6	0.9	34	4.5
1963- 1965	34.7	230	7.0	10	4.3	8.0	2.9	1.1	31	4.7
1966- 1968	42.7	213	10.3	11	4.8	11.0	1.7	1.7	36	5.0
1970	60	255	20.0	18	14.0	13.5	2.5	1.7	38	8.5
1971	71	275	25.6	21	16.8	16.5				
1973			50.0	25	25.0					
1960- 1971 (cumu- lative annual growth rate)	6.4	-0.6	18.2	5.8	19.2	6.9 ^a	-0.4 ^a	6.6 ^a	1.1 ^a	6.6 ^a

Sources: 1960-1970: S. Swamy, *op. cit.*; Ministry of International Trade and Industry of Japan, various publications.

^a 1960-1970.

implements and promote their production in rural areas. This process was limited at first (1958 and ensuing years) to the improvement of hand tools, since they could easily be produced by local industries. This policy contrasted with that of the previous period when unsuccessful attempts were made to foster the production of animal-drawn agricultural implements or machinery, which at that time were manufactured by plants in large or medium-sized cities.

The period 1958-1960 also witnessed the large-scale introduction of various types of irrigation equipment, primitive

transport equipment for agriculture, and implements for more intensive cultivation such as ploughs for deep cultivation and machinery for closer planting.

The introduction of agricultural machinery is a complicated process which requires time and experience, but after a period of trial and error the more advanced stage of mechanization of agricultural production began in the 1960s. The total power incorporated in agriculture (including all types of tractors and pumps) rose from 0.6-0.9 million HP in the late 1950s, to 5.3 million in 1962-1964 (see table 19). The

number of tractors doubled in five years (1965-1970) to a total of 300 000 (with an average of 15 HP). The use of machinery for harvesting, processing agricultural products, threshing, draining and irrigation also increased.⁴⁶

There was an increase, too, in the use of fertilizers: the total quantity used in agriculture rose from less than 1 million metric tons in 1954 to around 2 million in 1957, 3.5 million at the beginning of the 1960s, and 6 million in 1964. In 1971 it is estimated to have reached at least 20 million tons.⁴⁷ This was largely due to the increase in the production of small and medium plants established in rural areas.

Since the area of cultivated land in China is very small in relation to the number of persons engaged in agriculture, it may well be asked how it was possible to employ the labour force productively in this modernization process. It might be thought that mechanization and other measures would lead to a surplus supply of manpower.

This point was also raised at first in China itself. In some articles published in an official periodical⁴⁸ it was pointed

⁴⁶Hideo Yamamoto, "The agricultural mechanization process in China", *ESP* (in Japanese), 1972.

⁴⁷16.8 million tons produced in China plus 2.8 million tons imported. See table 18 and Ministry of International Trade and Industry, *Official report on foreign trade* (in Japanese), 1972.

⁴⁸For example, an article in the periodical *Planned Economy* (in Chinese), April 1954, cited by Reetsu Kojima in "The agricultural machinery and implements industry in the development of the national autonomous economy", *Ajia Keizai* (in Japanese), September 1966.

out that there was a limit to the rapid mechanization of agriculture, in view not only of the lack of petroleum but also of the fact that although mechanization increases productivity per worker it does not raise the yield per hectare; therefore, in areas with plentiful manpower it would merely lead to a surplus of labour.

A solution was found to these problems, however. The labour saved by mechanization and modernization, and also the natural increase in manpower, was employed in various activities designed to step up agricultural production: (a) intensive cultivation, especially deeper cultivation of the soil and multiple crops (two or three per year); (b) the construction of irrigation works and the development of new agricultural land; and (c) rural industries.

As regards the first point, a sound indicator is the index of multiple crops, which rose from 134 in 1952 to 143.1 in 1964. It must be considered, moreover, that the area sown increased from 112.3 million hectares in 1952 to 128.7 million in 1964⁴⁹ (see table 19).

The important factor in rural industrialization is the close relationship between agriculture and the industries established in rural areas. In fact, many of the industries form part of the agricultural communes. The workers in rural industries are mostly peasants who have received some training. Tractor drivers and other technical specialists were also chosen from among the rural workers in the respective communes, as being the persons most familiar with the conditions prevailing in the area. Tempo-

⁴⁹Reetsu Kojima, "Reappraisal of the Great Leap Forward policy with special reference to the industrialization of the rural economy", *Ajia Keizai* (in Japanese), December 1967.

Table 19
CHINA: INPUTS FOR AGRICULTURE
(Three-year averages)

<i>Three-year period</i>	<i>Area sown (millions of hectares)</i>	<i>Use of fertilizers (millions of tons)^a</i>	<i>Machinery (millions of HP)^b</i>	<i>Index of multiple crops</i>
1952-1954	114.3	0.57	0.05	135
1957-1959	120.8	2.53	0.72	141
1962-1964	127.7	5.11	5.27	140
1952-1964 (cumulative annual growth rate)	1.1	24.5	59.3	0.4

Source: S. Swamy, *op. cit.*

^aIncluding imports and production of N, P₂O₅ and K₂O.

^bIncluding all types of pumps and tractors (according to official data, the figure for 1970 is twice the 1965 figure, 4.5 million HP of which represents tractors).

Table 20
**CHINA AND INDIA: PRODUCTION, AREA SOWN AND YIELD
 PER HECTARE, BY PRODUCTS**

	<i>Period</i>	<i>China</i>			<i>India^b</i>
		<i>Rice</i>	<i>Wheat</i>	<i>Total^a</i>	
Production of processed cereals (millions of tons)	1952-1956	53.4	18.3	136.3	63.9
	1957-1959	65.6	21.3	160.9	71.2
	1961-1965	70.3	21.1	175.4	83.5
Area sown (millions of hectares)	1952-1956	30.0	26.3	116.2	105.8
	1957-1959	32.5	27.1	120.8	112.2
	1961-1965	33.2	25.1	126.3	117.0
Yield (tons per hectare)	1952-1956	1.8	0.7	1.2	0.6
	1957-1959	2.0	0.8	1.3	0.6
	1961-1965	2.1	0.8	1.4	0.7

Source: S. Swamy, *op. cit.*

^aIncluding other cereals and potatoes (value of production equivalent to cereals).

^bIncluding rice, wheat and other cereals, and potatoes.

rarily unemployed manpower was also used in certain seasons of the year.

Moreover, most of these industries were established on the initiative of the rural workers, with funds set aside by the communes, and they themselves constructed the plants.

Indeed, in certain periods—particularly during the Great Leap Forward—the labour engaged in non-agricultural activities (infrastructural works, construction and operation of rural industries) increased so rapidly that it affected agricultural production. However, this process enabled the basic problem to be visualized more clearly, since the relative shortage of labour in agriculture for several years brought into focus the need to increase productivity in order to keep manpower available for other activities designed to improve the performance of agriculture. For this reason, the rural industries established in the 1960s were definitely geared to the production of inputs and capital goods for agriculture.

Thus, manpower engaged in rural industries increased rapidly and accounted for an estimated 15 per cent of the total labour force in rural areas by the end of the 1960s.⁵⁰ This contrasts

with the situation in the 1950s when manpower engaged in activities other than agriculture was not more than 3.5 per cent. At the time, this percentage was considered excessive⁵¹ and, in actual fact, agricultural production stagnated. In other words, with the productivity increase in agriculture⁵² it was possible to absorb an increasing number of rural workers in rural industries without undermining agricultural production, and these industries in turn supplied inputs and goods for further improving agricultural productivity.

In certain communes, moreover, the proportion of the labour force engaged in industry is even higher, i.e., up to over 20 per cent, while the value of manufacturing output is approximately one-third of the total value of production (agricultural and industrial).⁵³

Assuming that the national average proportion was 15 per cent, the total number of workers engaged in rural industries would be 30 million. This is much higher than the number of workers engaged in manufacturing industry, which in 1965 was estimated at 13.7 to 14 million.⁵⁴

3. *Some characteristics of technological development*

Technological development in China has passed through various characteristic stages and is in keeping with the policy of “walking on two legs”.

One well-known experiment promoted early in 1958 was the production of iron on a very small scale in rural areas. Although the Government had to

rectify the excessive scope of the campaign owing to the low quality of the product, heavy cost of transport,

⁵¹ According to an article published in an official periodical (1961) cited by R. Kojima, “Reappraisal . . .”, *op. cit.*

⁵² There are no data available on the increase in productivity per worker; for the increase in yield per hectare, however, see table 20.

⁵³ H. Yamamoto, “The agricultural . . .”, *op. cit.*

⁵⁴ *ESP*, July 1972.

⁵⁰ Masahisa Sugenuma, *Revolution and economy of the 700 million* (in Japanese), 1973.

etc.⁵⁵ the campaign itself, according to many observers, had a strong educational impact on the rural workers, who had virtually no scientific or technical knowledge.⁵⁶

The blast furnaces, of 3 to 100 cubic metres capacity, could be built fairly rapidly (4 to 5 months on average) without need of advanced technology or highly skilled manpower. The iron produced, though not of good quality, was used for the production of agricultural implements and for the infrastructural works that were being actively constructed in that period. In the light of this experience, the production of iron and steel was subsequently organized on a more rational basis in rural areas, taking the quality, cost and other factors duly into account. Some techniques were also perfected. For example, an important factor in the production of iron is the ability to increase the temperature of the blast furnace, for which an efficient air-blowing device is

⁵⁵Some authors point out that the small-scale production of iron in the countryside began early in 1958, before the Great Leap Forward policy, and to consider the small-scale blast furnaces established at that time as part of the result of rural industrialization therefore leads to erroneous conclusions. They contend that the rational development of small and medium-scale blast furnaces and converters during the rural industrialization campaign in the Great Leap Forward period, and the expansion of the chemical and machinery industries and other similar activities should be clearly distinguished from the campaign for the very small-scale production of iron ("backyard campaign"), which was short-lived (see Wheelwright and McFarlane, *op. cit.*).

⁵⁶Masumi Sato, "Technological development in China and its characteristics", *ESP* (in Japanese), July 1972; Wheelwright and McFarlane, *op. cit.*, etc. R. Kojima, "Reappraisal . . .", *op. cit.*, estimates that over 100 million peasants took part in the campaign.

required. Following the experimental period, electricity-powered air-blowers were introduced.⁵⁷ Although the steel-manufacturing process developed at the time was not a very modern or large-scale method, neither did it represent a revival of that used, say, in the period of the industrial revolution in the European countries, since it included various technological advances.⁵⁸

The fertilizer plants established in rural areas also operated on a small scale and were intended to supply a limited area. The significant advantage enjoyed by the small and medium-scale ammonium sulphate plants was that the rural industries had attained a technological level which enabled them to construct high-pressure towers of adequate size and manufacture the high-pressure compressors for them.⁵⁹ In other words, their construction involved less skilled manpower than was required in large-scale plants. Moreover, in addition to ammonium sulphate, the local fertilizer plants produced ammonium bicarbonate and ammonium nitrate, the manufacturing process of which is much simpler and more suited to small-scale production. Although these products cannot be stored for long periods or carried long distances, the small plants were not affected by such difficulties since they only supplied a limited area.

⁵⁷M. Sato, *op. cit.*

⁵⁸In this respect, some authors considered the small-scale iron and steel production technology as a case of "intermediate technology". The size of around 550 cubic metres is similar to that of the blast furnaces used in Europe in the first half of the nineteenth century.

⁵⁹The internal diameter of the towers is estimated to be about 300-450 mm and their height 3 000-4 000 mm, which is very small compared with the towers of large-scale plants.

Much the same may be said about the construction of hydroelectric plants. Instead of a large number of small plants, a smaller number of large-scale plants could perhaps have been built; but their construction would have involved more time and labour, and a considerable concentration of funds, building materials and other inputs—cables, machinery—in addition to manpower. In contrast, for the construction of small plants in rural areas use was made of the manpower available locally,⁶⁰ and the short period of construction permitted the rapid supply of electric energy in the area, with favourable short-term results.

The most important products of the agricultural machinery industry are tractors. At first, large tractors were introduced, but later the industry prepared its own designs for small 10-20 HP tractors. The 15 HP tractor increases the labour productivity of cultivation approximately 13 times. Obviously, if large tractors are used the increase in productivity is greater, but the construction of plants for the production of large tractors requires a longer time, a higher level of precision engineering, more resources, etc.

Concurrently with the gradual development of local industries with intensive use of labour and a technology suited to the conditions found in rural areas, various industries made great efforts to introduce advanced modern techniques and to develop a technology of their own.

The electronics industry is one of those in which most technological

⁶⁰Peasants already had experience of the mobilization of resources for large-scale projects, such as the construction of irrigation dams, reforestation, soil improvement, etc., which were carried out before and during the Great Leap Forward period.

progress was made. In a detailed study by a Japanese specialist,⁶¹ the conclusion was reached that the level of technology of this industry had risen so rapidly in China that by the end of the 1970s the technological lag behind Japan was only 5 to 7 years, whereas at the beginning of the First Five-Year Plan it was over 15 years. The use of transistors dates in China from 1963, some eight years later than in Japan, but it spread very rapidly. The number of plants in the electronics industry in China increased 20-fold between 1965 and 1970, and the production of semi-conductors in Peking doubled over the period 1968-1969.⁶² The use of silicon transistors began to be fairly widespread in the late 1960s. Thanks to the considerable capacity of China's electronics industry to design its own models, the mid-1960s witnessed the design and production in China of various electronic instruments, including electronic microscopes with a magnifying capacity of 200 000, first produced in 1965 and comparable with those produced in Europe or the United States.

As regards computers, a machine using valves was produced on an

⁶¹Masumi Sato, "Technological development in China from the angle of the electronics industry", *Ajia Keizai* (in Japanese), December 1971.

⁶²The development of the electronics industry in China in the 1960s was also due to the technological progress in industrial inputs for this industry as from 1963-1964. In the 1950s the delay in the production of various inputs—including cold-rolled silicon steel, magnetic steel alloy and plastic insulating materials—was one of the bottlenecks holding back the advance of this industry. Significant progress was reported in the production of silicon steel in 1963-1964, and in the use of plastic materials in 1964-1965. High-purity germanium was produced in China in 1963, thus permitting the wide use of transistors and diodes.

experimental basis as early as 1959. Transistorized computers were produced in 1967, and large computers by the end of the 1960s. At the same time, the technique for the use of computers (software) was developed. Computers are currently used in designing bridges and large dams, in oil exploration and refining activities, for meteorological calculations and for many other purposes. A good indicator of their use was the placing in orbit of small satellites the control of which requires the use of medium or large computers.

Significant technological progress has also been made in the machinery industry, particularly the production of machine-tools. By 1965, machines had been manufactured for cutting spiral bevel gearing, which is indispensable for the production of high-speed gear drives. Subsequently, the Chinese industry was able to produce optical drills. Both these machines are considered to be good indicators of the technological level attained. Other achievements of note are the introduction of numerical control in machine-tools. In 1968 a turret lathe with programmed numerical control was produced, in 1970 a large lathe and a large four-size milling machine, likewise with numerical control, and in 1971 a non-round gear-cutting machine, also with numerical control. In the metals industry, the 12 000 ton forging press was an important landmark since it permitted the production of reaction towers for chemical plants, atomic energy equipment, shafts for electric power generating equipment, etc.

In the production of steel, a converter with liquid oxygen injection (LD converter) was put into operation in 1967, although most of the steel is still produced in Siemens-Martin furnaces. Automatic processes based on Chinese designs have been introduced. There has

also been significant progress in the production of regular low-alloy steel, particularly as regards variety and quality. A complete petrochemical plant was recently designed and constructed. Advances are also known to have been made in other industries, such as shipyards, oil refineries and textile machinery.

Lastly, mention should be made of the fact that even in non-rural Chinese industry fairly labour-intensive methods were used. In the electronics industry, for example, the scale of production per establishment is generally considerably lower than in the corresponding industries in more industrialized countries. This occurs not only in assembly plants but also in industries producing industrial inputs and machinery.⁶³

To sum up, China has striven to attain a high level of technology by using modern techniques and at the same time promoting the development of its own technology, and it has adopted production methods suited to its raw material and manpower resources. Particularly notable in this respect are the results obtained through rural industrialization.⁶⁴

⁶³ For example, silicon semi-conductors are produced mainly in small plants which do not enjoy the same conditions as those found in industrialized countries, where a strict system of air-conditioning and waste disposal is used, as well as fully automatic processing in the reducing furnaces. In China, the small plants try to keep themselves hermetically sealed by means of some primitive arrangement in the windows and use a manual system in the reducing furnace, with the simple method of extracting hydrogen gas from liquid ammonia (see M. Sato, "Technological development in China . . .", *op. cit.*).

⁶⁴ This simultaneous technological progress was also evident in other sectors. An illustrative example is medicine, which developed the ancient system of acupuncture, homeopathy, etc. side by side with Western medicine.

III

The experience of Asia and Latin American development strategy

Employment in Latin America presents highly complicated problems which differ from one country to the next, but the major ones are common to most of the region, as is pointed out in a recent publication of the Regional Employment Programme for Latin America and the Caribbean (PREALC).⁶⁵ They are: (i) a relatively high rate of unemployment; (ii) a high level of under-employment in the agricultural sector; (iii) extensive underprivileged shanty-towns around the cities, swollen by strong migratory flows from the rural zones; (iv) a relatively slow growth of industrial employment, despite quite rapid growth of production. Furthermore, the effects of the sharp growth of the population over the last two decades are beginning to be seen: the labour force is no longer growing at 2.3 per cent, as until recently, but at 2.8 per cent annually. The steep rise in population forecast for the next 25 years gives grounds for assuming that these factors will continue or worsen in the future.

Taking these Latin American facts of life into account, we shall begin by summarizing the main aspects of Japanese and Chinese experience which may be of interest to the region.

The experience analysed above seems to demonstrate that the considerable growth of productivity in the agricul-

tural sector occurred without necessarily displacing the manpower employed in the sector. This is interesting because there is a tendency to believe that within a fixed agricultural surface-area, capital investment (particularly mechanization) tends to replace manpower.

In both Japan and China the cultivated area per person employed in agriculture has always been very small compared with the Latin American countries, but it was possible to increase yields and productivity without appreciably reducing the number of persons employed per unit of cultivated land.

In this connexion we have already mentioned the results obtained in China following the war. As for Japan, the rice yield per hectare rose from 1.8 metric tons in 1868-1882 to 4.0 metric tons in 1956-1960. However, the number of persons employed remained constant at 15 million, with some fluctuations, throughout this long period and the non-agricultural income of peasant families rose progressively, particularly from the middle of the 1950s. An FAO study on Japanese agricultural development finds it highly significant that the country was able to increase productivity in this sector without significantly reducing the total labour force employed in it, while maintaining small-scale agriculture.⁶⁶

⁶⁵ Regional Employment Programme for Latin America and the Caribbean (PREALC), *Employment policy in Latin America*, (CC/CTP/2), Santiago, 1974.

⁶⁶ Takekazu Ogura, (ed.), *Agricultural Development in Modern Japan*, Japan FAO Association, Tokyo, 1966.

A number of advantages of rural industrialization should be recalled, although some of them appear to be obvious; it is worth reproducing the point of view expressed in an editorial article of an official Chinese newspaper⁶⁷ on small and medium-scale industries in the provinces:

- They involve relatively small investments, and the time which elapses until the factory comes on stream is relatively short;
- They can be built close to the centres of consumption or supply of raw materials and thus they may be suitably located;
- Their products may be diversified according to the specific conditions of the zone;
- They circumvent the problem of the lack of energy and raw materials at the national level, and help to solve the employment problem;
- They do not require imports, since their plant and machinery can be produced within the country.

The same article adds that "the execution of small projects in coal-mining, steel and non-ferrous metals and the construction of small power stations, etc., with better orientation and organization, is an important measure by which the country can overcome its backwardness in the production of industrial raw materials, while increasing employment". In a subsequent report further advantages are pointed out:

- Considerable saving in transport costs;
- Employment of seasonal labour;
- Co-ordination between industry and agriculture with regard to employment, repair of equipment and

machinery and the supply of inputs for agriculture: in general, a mutual stimulation of the two sectors;

- Less investment on the part of the Central Government, since the local industry can be built by mobilizing material, human and financial resources of the zone, including those of the agricultural co-operatives;
 - Higher incomes for the agricultural workers, and broadening of their scientific and technical knowledge;
 - Less State expenditure in the construction of urban infrastructure and in the supply of consumer goods, by avoiding an excessive concentration of the population in cities;
 - Reduction of the economic differences between towns and rural areas.
- The following specific advantages may be seen in the Japanese experience of industrialization:

- The heavy and chemical industries can have a number of favourable direct and indirect effects on employment;
- Labour productivity can be raised in the various branches of manufacturing industry without carrying out large-scale investment, i.e., without a substantial increase in the value of fixed capital per person employed;
- The introduction of advanced technology can be made compatible with the absorption of labour in the different manufacturing branches;
- Small and medium-scale industries can absorb large amounts of labour and also achieve technological progress, sustained fixed-capital investment, increased labour productivity and higher exports.

It is not the author's intention to suggest that the experience of these two Asian countries should be directly applied to the Latin American countries; the aim is merely to derive some benefit

⁶⁷Jenmin Jihpao, 16 June 1957 and 12 February 1958, quoted in R. Kojima, "Reappraisal . . .", *op. cit.*

from various aspects of that experience which may provide valuable background material for the formulation of a future Latin American development strategy.

The enormous economic, social and political differences between the countries of Asia and Latin America are well known and will not be discussed here. However, some fundamental points should be recalled in connexion with employment problems and their relationship to industrialization policy.

The two Asian countries analysed above had very serious problems of excess labour, besides the problems stemming from the need to feed their large populations. Latin America is in a better position than they were to tackle the problem, thanks, *inter alia*, to its greater agricultural surface-area and its reserves of various natural resources.

On the other hand, a number of differences not strictly of an economic nature between the countries of Asia and Latin America also give rise to serious reservations about the possibility of applying the Asian experience to other countries. In the case of China, it is obvious that the measures adopted cannot always be separated from the overall socialist economic policy of the country, established in accordance with a specific ideology. However, it would be an error for the countries with different systems to reject the possibility of taking advantage of some aspects of that experience.

It should also be recalled that Japan and China applied very different criteria in respect of foreign trade. While the former from the start sought a vigorous growth of foreign trade, considering it to be one of the main springboards of development and industrialization, China thought otherwise, and the share of exports in the value of its gross domestic product has always been minimal. The

role assigned by the Latin American countries to the external sector may differ from those of the two Asian countries, and this would certainly determine to some extent the scope of their industrial and technological policies, *inter alia*.

Given these general reservations, we shall attempt to make a preliminary appraisal of the possibility of exploiting some aspects of the experience analysed above for the benefit of Latin America.

With regard to the agricultural sector's capacity to absorb labour, there is a striking difference between the number of persons employed per hectare in Latin America and in the two Asian countries. The same may be said of the yield per hectare of some crops.⁶⁸ This difference reveals the enormous potential capacity of the sector to absorb labour productively. Japanese and Chinese experience shows that it is possible to raise productivity per worker and per unit of cultivated land without large-scale investment, and that furthermore this may be done even in small-scale agriculture.

Rural industrialization has the fundamental advantage of absorbing semi-employed labour (or hidden unemployment, to use Nurkse's terminology), without the disadvantages this creates in the large urban industries, which involve

⁶⁸The area cultivated per agricultural worker was 98.4 hectares in Argentina, 88.5 in Uruguay, 24.7 in Venezuela, 19.9 in Brazil, 16.8 in Mexico, 7.3 in Peru, between 3.0 and 9.1 in the Central American countries, etc. (IDB, *Latin American agricultural development in the next decade*, Inter-American Development Bank Round Table, Washington, D.C., 1967). The yield of rice per hectare varied between 1.06 and 4.86 tons and that of wheat between 0.55 and 2.55 tons in Latin America in 1964-1965 (CEPAL, *Economic Survey of Latin America, 1966*, United Nations publication, Sales No E.68.II.G.1).

longer construction periods, higher investment costs, more skilled labour, etc. In addition, it is costly to transfer labour to the urban centres where these large industries are set up. The fluctuations in the demand for labour in agriculture according to the season and the climatic conditions of each year should also be borne in mind, since they can only be exploited in small local industries.

Nevertheless, rural industrialization could have various disadvantages, as may be seen in the arguments given below which were advanced in China itself. Some of them are summarized in an article which appeared in a Chinese Government newspaper:⁶⁹

(a) Small industries usually need more investment than large industries to produce the same quantity of products;

(b) Production and management costs in small industries are higher than in large industries;

(c) The quality of the products of the small industries is usually inferior to that of the products of the large industries, and the small industries have a smaller capacity to exploit industrial inputs.

However, the same article indicated that the prevailing opinion was that the desirability of rural industrialization should not be judged purely on the basis of short-term costs.

Indeed, the cost does not appear so high if two important advantages of rural industrialization are taken into account: the use of semi-employed labour (which otherwise cannot be used) and the technical training provided to the agricultural workers, since the cost of setting up training schools throughout the country would be immense.

⁶⁹ Jenmin Jihpao, 12 February 1958, quoted in R. Kojima, "Reappraisal...", *op. cit.*

Another highly significant aspect of rural industrialization is that it solves to some extent the problem of the difference between the growth of productivity in agriculture and in industry. As is well known, the growth of productivity in the agricultural sector, given specific physical conditions and methods of production, is usually considerably lower than in the manufacturing sector. This gives rise to differences in the degree of improvement in the standards of living of the workers in the two sectors. Rural industrialization enables agricultural workers to participate to the best of their ability in industrial production and share in the benefits of the growth of productivity in that sector.⁷⁰ Furthermore, since most of the products manufactured by the rural industries are capital goods and inputs for agriculture, rural industrialization in turn enables the productivity of the agricultural sector to be raised.

Needless to say, if some countries of Latin America find it desirable to promote rural industrialization, the features of the process would be very different from those in the Asian countries, since the conditions in the rural zones of Latin America are different, above all as regards the possibilities of supplying inputs for agricultural production both from the

⁷⁰ This problem arose in China in the form of the difference between the wages of industrial and agricultural workers. It cannot be denied, however, that some of this difference stems from relatively unfavourable prices fixed for the agricultural sector. The Government of China has been correcting these prices, raising those of agricultural products and considerably lowering those of manufactures. However, there might also be a difference between the two sectors stemming from the higher growth of productivity per person in one sector compared with the other.

industrial zones of the country and from abroad.

However, it should also be borne in mind that in some rural zones of Latin America the rate of under-employment is relatively high, and the infrastructure is not always sufficient to meet the needs of agriculture at a reasonable transport cost; for the same reasons, their products cannot be marketed in the large towns without raising their price. The exaggerated concentration of population in a small number of large cities (usually the capital of the country) is a predominant factor in various countries of Latin America. This problem could be remedied at least in part by a regional development policy for the various zones at a distance from the capital, in order to create the so-called "poles of development"

With regard to the absorption of labour in the manufacturing sector, it is usually considered that the heavy and chemical industries have a rather limited capacity to generate employment and that the introduction of imported technology, together with investment in capital goods, replaces labour and therefore may have effects on employment which are not necessarily favourable. However, Japanese experience shows that the heavy and chemical industries also have wide fields in which labour is absorbed. Furthermore, these industries present two great advantages: the high potential for raising productivity and the strong demand for their products. These features enable them to gain more funds for investment and the introduction of advanced technology, thus forming a "virtuous circle" and creating good long-term employment opportunities.

Various studies have shown that the rapid growth of productivity per person employed in almost the entire range of

industries resulted both in high profits and in a strong and continuous rise in wages and salaries in Japan. The high profits of the enterprises, as well as company, individual and government saving, made possible a boom in large-scale investment which increased the demand for capital goods and industrial inputs. The rapid growth of wages and salaries, despite the high rate of individual saving, constantly increased the demand for consumer goods. Finally, the continuous growth of productivity led to a strongly competitive position in the external market which, together with specialization in the products for which world demand was growing most rapidly, gave rise to the rapid and constant growth of the external demand for Japanese manufactures.

This very vigorous growth of the demand for capital goods, consumer goods and industrial inputs, both within the country and abroad, called for greater investment, fostered through the well-known process of "investment-generated investment". This process, combined with the introduction of advanced technology, caused the steady growth of productivity which in turn created the investment fund (an increasing large source of financing to satisfy investment demand) and this led to the so-called "virtuous circle" of accelerated development.⁷¹

Latin America seems to possess a number of necessary conditions for entering into a process of accelerated growth of the heavy and chemical

⁷¹A more detailed account of this phenomenon, as well as broad statistical data and some references, may be found in "Export promotion in Japan and its application to Latin America", *Economic Bulletin for Latin America*, Vol. XV, No 1, first half of 1970 (United Nations publication, Sales No E.70.II.G.6).

industries. As we have said, one of the fundamental factors in the rapid industrial growth of Japan was the heavy investment in the manufacturing sector stemming from company and individual saving which, in turn, was made possible by the rapid growth of productivity. One of the key elements in the process was the rapid incorporation of advanced technology and its adaptation at different levels of productive activities.

Despite its large capacity to absorb advanced technology, Latin America seems to present a considerable technological lag in comparison with the highly industrialized countries, so that it is in a good position to begin an accelerated process of introduction of technology and industrial investment. In Japan, it was impossible to carry out large-scale investment in the desired manner as long as foreign financial resources were not available on favourable terms and as long as the country lacked a substantial source of foreign exchange. Latin America, on the other hand, has the considerable earnings of traditional exports as a source of financial resources.

In Latin America mention has been made of the difficulty created by the small size of the market, but, as Japanese experience shows, there are various branches which do not necessarily need a very large scale of production. In addition, the integration process creates the possibility of installing efficient large-scale industries; thereafter, as they become progressively more competitive, the demand from extra-regional markets may justify an even larger scale of production. The relative abundance of labour will not be a disadvantage in this process, but rather an important advantage if used productively. Perhaps a great effort will have to be made to train labour but, according to the experience

of the Asian countries, the smaller industries do not at first require highly-skilled labour. Nevertheless, what is important is that as the industries expand they must incorporate advanced technology and improve the quality of their labour. The relative abundance of labour may be an advantage in specific industrial branches because, if combined with advanced technology, it leads to more competitive products in the international market.

The economic growth of Japan has repeatedly had to be slowed because of balance-of-payments problems. The Latin American countries are in a better position to tackle a problem of this kind because besides the possibilities of increasing exports of manufactures through better competitiveness, most of them have various traditional export products. Some have raw materials needed by the industries—oil, steel, textile raw materials, non-ferrous metals—which Japan had to import. Since in addition Latin America has less need to import food than Japan, the balance-of-payments problem is less serious.

There is a pressing need to recognize the important role which small and medium-scale enterprises could play in the process of expanding the heavy and chemical industries, and to assist them in improving their financing and investment capacity, stimulating technological progress and raising productivity.

Finally, the experience gained in the two Asian countries in other fields might also be exploited by Latin America in such areas as technology (transfer, adaptation and domestic development of technology), export promotion, sectoral development, and assistance to small and medium-scale enterprises, which we have not been able to discuss fully here.

This study is only a preliminary essay on some important points. It stems from a desire to furnish some background information derived from the experience of two Asian countries which may be of use to Latin America, and to awaken the interest of economists and of government and private circles in the region, whose knowledge and studies of those countries are still somewhat limited.

The production structure and the dynamics of development

*Gérard Fichet and Norberto González **

The authors criticize the fallacious concept of an antinomy between import substitution policies and policies to promote the export of manufactures. To regard these as mutually exclusive alternatives poses options geared only to part of the problem, and incapable of providing an adequate answer to development needs. Substitution without exports, carried out within the narrow framework of each national market, leads to inefficiency and high costs. The export of manufactures without substitution maintains the current backwardness in the production of capital goods and essential intermediate goods which is a bar to less dependent and more rapid development and helps to account for Latin America's present unsatisfactory position in the world economy. The authors show that, in developed economies, the larger the market, the farther industrial development can be taken without any loss of efficiency. In the light of this object lesson, they suggest that if import substitution policies and policies for the export of manufactures were combined through co-operation between the countries of the region, Latin America would attain a better position in the international economy and a much higher level of development.

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Introduction¹

Most of the Latin American countries are faced with controversy on the development strategy which should be followed, and are discussing, among other fundamental aspects, the role that should be played in it by import substitution policies and policies to promote the export of manufactures.

This paper sets out to show that the time has come to consider such policies as complementary elements of a development strategy for Latin America. The common fallacy that the two policies are in opposition is the result of a mistaken over-simplification and only confuses the search for appropriate solutions.

This confusion has above all militated against Latin American co-operation in the industrial and commercial spheres. Import substitution is often erroneously regarded as a policy which can only be applied in the limited context of each national market. Nor has the export of manufactures, mainly from the economically largest countries of the region, been carried out with sufficient attention to the important role that Latin American trade can play as an instrument for securing these countries a better foothold in the world economy. There is, in consequence, a tendency to assume that it is possible to pass directly from the historical stage of highly-protected national industrialization to the conquest of international markets, envisaging the Latin American market merely as part of the world market,

¹ The authors are grateful to Juan Ayza for his assistance in carrying out the analysis of the relationship between the development potential of the more dynamic industrial sectors and the dimensions of national demand, which occupies an important place in the central argument of this article.

without assigning an important role to co-operation between the Latin American countries, and thus disregarding the possibilities of import substitution at the level of the regional market.

These erroneous concepts acquire particular significance in the context of the period of difficulties and radical change through which both the world economy and that of Latin America are now passing. Latin America, without losing its identity as a member of the developing world, is becoming more and more individualized as a region whose characteristics, problems and potentialities distinguish it from the rest of the Third World. Because of its higher per capita income it has been increasingly excluded from the international mechanisms of financial co-operation. Its degree of industrial development, which is on an average higher than that of the countries of Africa and Asia, allows it to assign a more prominent role to the manufacturing sector in both the growth of exports and the solution of the domestic problems of absorbing labour and overcoming mass poverty, without detracting from the continuing importance of exports of primary commodities and simple manufactures. Many Latin American countries are already exporting significant quantities not only of simple manufactures but also of capital goods and other products entailing a fairly advanced technology, manufactured by the metal-transforming industries. It is clearly essential to define a new role for Latin America and a new mode of incorporation of the Latin American countries in world trade and industry.

As will be shown later, regional co-operation² must play a primary role in securing this new position and in the achievement of a satisfactory balance between import substitution and the conquest of external markets.

The following section analyses the relation which exists, for the industries producing capital and intermediate goods, between the size of the domestic market and the possibilities of increasing production and trade in the countries of the Organisation for Economic Co-operation and Development (OECD), which have competitive economies. It will be appreciated that if competitive conditions in Latin America were similar to those of the OECD economies, the opportunity of operating in a market of regional size would considerably broaden the possibilities of change in the structure of domestic production and of trade; this is true even of the more developed and larger countries of Latin America.

Sections 2 and 3 set forth some strategy options and study the prospects for Latin American development on the assumption that it will continue to be based entirely on the domestic market and the isolated effort of each country to conquer external markets; it will be seen that these prospects are decidedly restricted, since in such conditions only very limited changes in the production and trade structures would be feasible.

Section 4 briefly analyses a hypothesis of co-operation based on the promotion of the metal-transforming and chemical industries and of regional trade in their output. The results could be very significant, since such a course would not only appreciably speed up the

²The hypotheses presented here are merely illustrative and refer to a group of countries comprising Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela; since only limited statistical information was available on the other countries of Latin America they were not included in these hypotheses, but co-operation should of course extend to the whole of the region.

rate of development, but would also help to overcome the chronic backwardness of these sectors, inasmuch as conditions of international competition would prevail and their exports to the rest of

the world might expand considerably.

Lastly, some of the instruments which could serve to implement regional co-operation strategy are outlined in brief.

1.

Latin America's role in world trade and industry: past and present

The foreign trade and industrial production structures of Latin America show serious deficiencies in comparison with those of the industrially advanced countries, as is evidenced both in trends over the last twenty-five years and in the current situation.

(a) *Trends over the last 25 years*

An analysis of trends in the external sector and in industry reveals some characteristics which will have marked repercussions on the future economic development of the region.

The import substitution process has been very intensive over the last 25 years, particularly towards the mid-1960s, and since then there has been an unprecedented expansion of exports, and a parallel increase in imports. It should however be pointed out that:

(i) Import substitution is making very unequal progress; not only are some countries more backward than others in this respect, but even in those that are more advanced some industrial sectors of great strategic importance for development (intermediate and capital goods) are lagging behind, and still show quite high import coefficients;

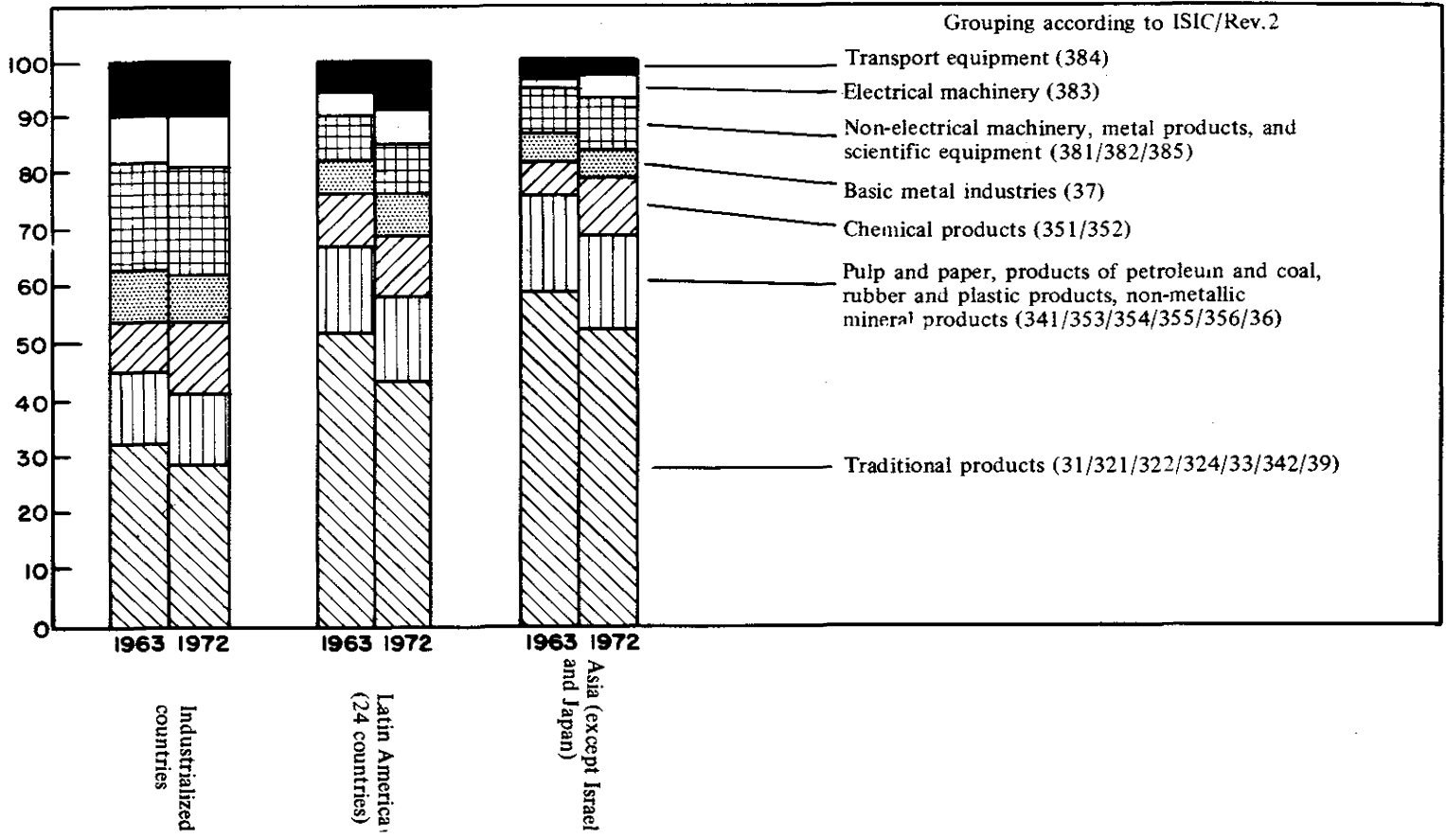
(ii) The growth rate of Latin American imports, which up to 1964 was only 0.4 times that of the product, is now 1.3

times the latter rate, and in some countries almost twice as high. Among the main causes of this phenomenon it should be particularly noted that as per capita income rises there is a more rapid increase in demand for goods with a higher import content (intermediate goods and production equipment), since the region's technological backwardness and low capacity for innovation make it necessary to import many of the new goods. Secondly, in many countries more and more liberalization of imports has been among the effects of the rapid increase in export values and of access to external financing.

(iii) During the period 1963-1972, in Latin America as a whole the manufacturing sector grew faster than in the industrialized countries, but its production structure still differs greatly from that observable in the latter. (See figure 1.) In the Latin American industrialization process the production of consumer goods has been given priority over that of capital and intermediate goods.

(iv) About half the Latin American population is almost entirely cut off from participating in demand for manufactures, and only a fifth of the total population contributes to creating a market for industry and serves as a basis for its expansion abroad. The low

Figure 1
 STRUCTURE OF INDUSTRIAL PRODUCTION, 1963 AND 1972
 (Percentages)



Source: CEPAL estimates, based on United Nations, *The Growth of World Industry*, 1972 edition, Sales N° E.74. XVIII.4, New York, 1974.

income strata affected by unemployment and under-employment make no contribution to demand. At the other extreme there is a small social sector, with very diversified and refined patterns of consumption, which orients industrialization. The small size of the real markets, attributable to this factor and to the lack of inter-country integration, goes a long way towards accounting for the backwardness of those industrial sectors which are more dynamic and of greater significance for development, such as the producers of capital and intermediate goods; in small markets it is difficult to produce on a competitive scale, and this limits the possibilities of exporting manufactures, a handicap which in turn helps to determine the peculiar nature of the region's present role in the world economy.

(v) Exports of manufactures increased rapidly from 1970 onwards in several countries of the region. However, they still represent only just over a fifth of total exports,³ and consequently afford no certainty of a rapid increase in the total volume of exports. Furthermore, 75 per cent of industrial exports are concentrated in the three economically largest countries. Intra-regional trade is very important, especially in industrial sectors; in 1974 the area absorbed 70 per cent and 46 per cent, respectively, of the products of the metal-transforming industries exported by Argentina and Brazil.

(vi) In recent years the trade-balance deficit has come to be the fundamental hindrance to development. The prices of raw materials, which rose temporarily,

have fallen (with exceptions such as petroleum), and are again showing their usual trends. The growth rate of exports of manufactures has slackened, because of the problems besetting the economies of the industrialized countries. In contrast, because of world inflation import prices are rising, and will continue to do so, at least for a time, and foreign debt servicing is also increasing sharply. Hence it is reasonable to suppose that for the next few years the balance of payments will tend to condition the development of many of the countries of the region.

(b) *Current deficiencies of industrial and trade structures*

The products of the metal-transforming and intermediate industries predominate in Latin American imports. Some 40 per cent of the region's total imports of goods are metal-transforming products, whereas the proportion is much lower in Japan (14 per cent) and in the United States.

The difference is even clearer in the case of exports, for while 45 per cent of the two industrialized countries' total exports of goods consisted of metal-transforming products in 1970, in Latin America the corresponding proportion is now only 6 per cent. The disparity is much more marked in absolute terms: the value of Latin America's exports of these goods (from several countries) was some 2 000 million dollars; that of Japan's, 9 000 million; and that of the United States', 20 000 million. At the same time, a high proportion of Latin American exports consists of primary commodities (45 per cent), while the share of such products in the exports of Japan and the United States is much lower. (See table 1.)

³ CEPAL, *Exports of manufactures in Latin America*, E/CEPAL/L.128, January 1976, shows that sales of traditional manufactures represent almost half of total industrial exports.

In Latin America there is a very marked asymmetry in foreign trade caused by the difference in the relative importance of products of the metal-transforming industry and of primary commodities in total imports and exports; this asymmetry is not found in the developed countries. Furthermore,

the proportions represented by traditional goods in imports and in exports are more similar in the United States than in Latin America. The heavy imbalance observable in Japan's foreign trade in primary commodities is due to its shortage of natural resources.

Table 1
STRUCTURE OF FOREIGN TRADE
(Percentages of total exports and imports)

Groupings according to ISIC/Rev.1	Japan (1970)		United States (1970)		Latin America (in the mid-1970s)	
	Exports	Imports	Exports	Imports	Exports ^a	Imports
Primary products ^b	3.7	52.3	20.8	20.4	44.8	17.1
Traditional industries ^c	24.3	16.7	13.0	26.7	24.6	9.1
Intermediate industries ^d	26.7	17.1	19.8	22.9	25.1	33.8
Engineering industries ^e	45.3	13.9	46.4	30.0	5.5	40.0

Source: United Nations, *Yearbook of International Trade Statistics 1972-1973* (Sales No: E.74.XVII.6), and CEPAL estimates for Latin America.

^aIn this table goods which in the UNCTAD classification are correctly considered as primary and semi-manufactured products are included under the traditional and intermediate industries. This explains the difference between the proportion of manufactures to the total according to this table, and that of just over a fifth of the total of manufactures in the strict sense previously mentioned in the text.

^bDivisions 01 to 19 of ISIC/Rev.1.

^cDivisions 20 to 26 and 28, 29 and 39, of ISIC/Rev.1.

^dDivisions 27 and 30 to 34 of ISIC/Rev.1.

^eDivision 35 to 38 of ISIC/Rev.1.

Latin America's manufacturing production is very different in structure from that of Japan or the United States. (See table 2.) In Latin America the relative share of the metal-transforming industry in total production is considerably lower than in the two industrialized countries, as will be seen clearly farther on, when the components of the capital goods sector are studied in more detail. The production of traditional and

intermediate goods predominates in the region.⁴

Thus, in comparison with other countries Latin America is lagging behind in the production of capital goods and basic intermediate goods, and

⁴The industries producing intermediate goods include the basic non-ferrous metal industries, which are very important in Latin America.

this is reflected in the asymmetric structure of its foreign trade.

The metal-transforming products which have a lower percentage share in Latin American production (23.7) and whose relative significance in imports of industrial goods is greatest (48.3 per cent) are precisely those in which the volume of world trade is growing most rapidly: 10.7 per cent a year over the period 1965-1973. In Latin American

exports, however, the predominant products are those in which world trade is growing at a slower rate; during the same period the volume of world exports of agricultural goods increased by only 3.7 per cent yearly.⁵

These shortcomings in the production and trade structures make for a more rapid increase in import requirements than in exports, and thus lead to external bottlenecks.

Table 2
STRUCTURE OF INDUSTRIAL PRODUCTION
(Percentages of total production)

	Japan (1970)	European Economic Community ^a (1972)	United States (1970)	Latin America (in the mid-1970s)
Traditional industries ^b	25.6	29.0	36.6	38.5
Intermediate industries ^c	29.5	34.0	27.4	37.8
Engineering industries ^d	44.9	37.0	36.0	23.7

Source: United Nations, *The Growth of World Industry*, 1972 edition, *op. cit.*, Volume I, "General Industrial Statistics, 1962-1971", and CEPAL estimates for Latin America.

^aComprising nine countries.

^bDivisions 20 to 26, 28, 29 and 39 of ISIC/Rev.1.

^cDivisions 27 and 30 to 34 of ISIC/Rev.1.

^dDivisions 35 to 38 of ISIC/Rev.1.

A more detailed analysis of the absolute participation of the chemical and metal-transforming sectors in total trade reveals that it is in these areas that Latin America is most backward. Table 3 shows that imports of chemical products, non-electrical and electrical machinery and transport equipment amount to 14 400 million dollars (50 per cent of total Latin American imports) and exports to only 4 300 million dollars (12 per cent of the total). In the United States and the European Economic

Community (EEC), on the other hand, the relative share of these goods in imports is lower than in exports (30 and 50 per cent, respectively).

In each of the sectors considered there is a manifest imbalance. The industrialized countries export much more than they import, because they sell

⁵General Agreement on Tariffs and Trade (GATT), *International trade in 1973/1974*, Sales No: GATT/1974-4, Geneva, 1974.

these types of goods to the developing countries, while among themselves they buy and sell products of similar sectors. In Latin America, on the other hand, the asymmetry is very marked and highly unfavourable; the ratio between imports and regional sales of non-electrical machinery is ten to one, and in the case of transport equipment, seven to one.

In recent years the gross value of per capita production in the chemical industries has been only a quarter as

much in Latin America as in France, one-fifth as much as in Japan, one-sixth as much as in West Germany and one-seventh as much as in the United States. In the metal-transforming industries the difference is far greater; in terms of value, the region's per capita production is equivalent to one-third of that of Italy, one-sixth of that of the Netherlands, one-tenth of that of West Germany, the United Kingdom and Japan, and one-thirteenth of Sweden's.

Table 3
IMPORTS AND EXPORTS OF SOME STRATEGIC SECTORS
(Billions of dollars)

Sector	United States ^a (1970)		European Economic Community ^{a b} (1972)		Latin America (in the mid-1970s) ^c	
	Imports	Exports	Imports	Exports	Imports	Exports
Chemical products	1.6	4.3	12.6	16.5	4.3	2.6
Non-electrical machinery	3.0	8.4	15.2	24.9	5.0	0.5
Electrical machinery	2.3	3.0	8.1	10.9	2.1	0.8
Transport equipment	5.9	6.5	11.4	20.1	3.0	0.4
<i>Sub-total of these sectors</i>	<i>12.8</i>	<i>22.2</i>	<i>47.3</i>	<i>72.4</i>	<i>14.4</i>	<i>4.3</i>
Other goods	27.2	21.0	106.8	81.2	14.4	26.0
<i>Total goods</i>	<i>40.0</i>	<i>43.2</i>	<i>154.1</i>	<i>153.6</i>	<i>28.8</i>	<i>30.3</i>

Source: United Nations, *Yearbook of International Trade Statistics, 1972-1973, op. cit.*, and CEPAL estimates for Latin America.

^aAt current prices.

^bComprising nine countries.

^cAt 1973 prices.

Since Latin America's total per capita product is smaller than that of the developed countries, it is only to be expected that in each of the sectors the region is lagging behind in comparison. It should however be noted that the

backwardness of the four strategic sectors included in table 3 is much greater than that of the rest of the economy. In table 4 it can be seen that the gap between Latin America's total gross domestic product per capita and

that of the developed countries is substantially less than the difference noted in the previous paragraph for these industrial sectors.

(c) *Relation between market size, specialization and foreign trade in competitive economies*

All that has been said so far is important because, as will be seen below, the smaller the size of a country, the

more it needs to export in order to achieve a scale of industrial production which will enable it to compete in world markets. This leads each country to specialize its exports intra-sectorally and therefore to import from other countries the goods that it cannot manufacture on competitive terms. This can be seen very clearly in the small European countries, where the global ratio of imports to the gross domestic product is high and on the increase and at the same time

Table 4
COMPARISON OF SOME VARIABLES, 1972
(With respect to the average for Latin America)

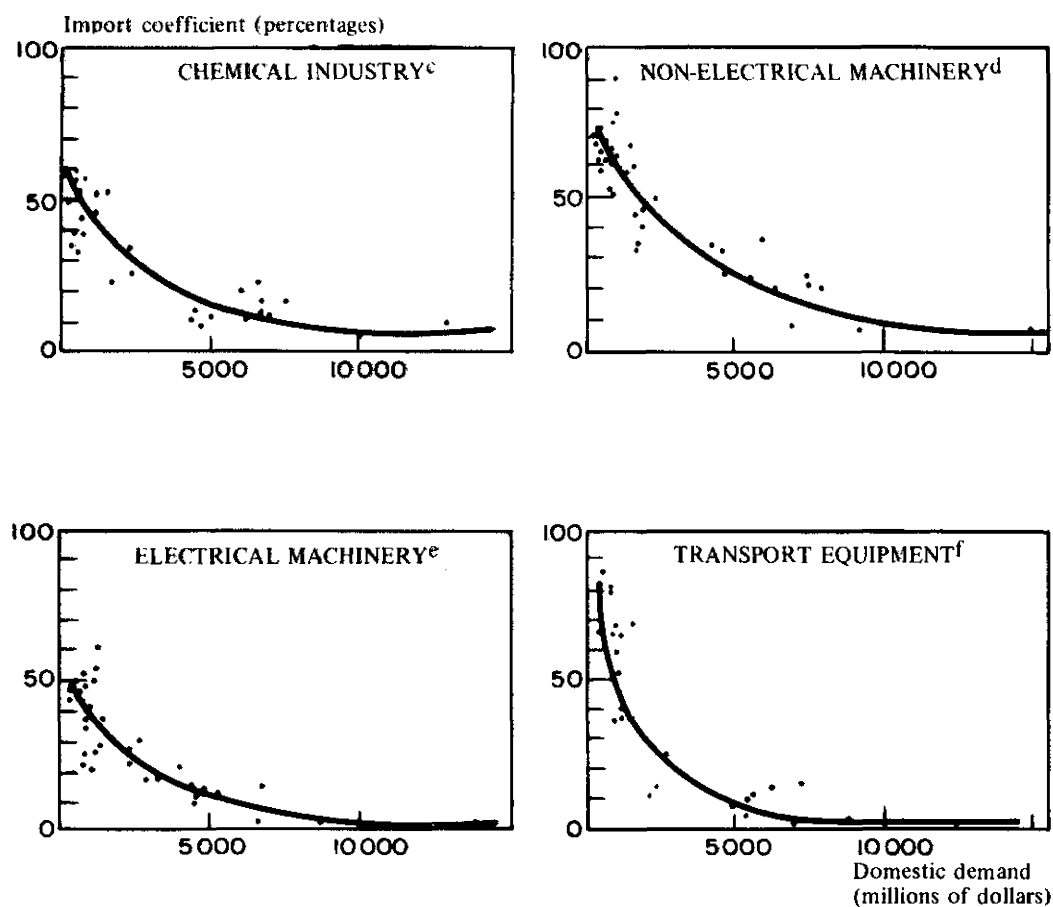
<i>Countries or groups of countries</i>	<i>Per capita gross domestic product</i>	<i>Per capita product of the goods-producing sectors</i>	<i>Per capita manufacturing product</i>	<i>Population</i>
<i>Latin America (19 countries)</i>	1.0	1.0	1.0	1.00
Argentina	1.9	2.0	2.5	0.09
Brazil	0.8	0.8	0.8	0.36
Mexico	1.4	1.3	1.4	0.19
Andean Group (6 countries)	0.9	1.0	0.8	0.25
West Germany	6.2	7.1	10.8	0.22
Belgium	5.4	4.7	6.8	0.03
Canada	7.0	4.9	6.1	0.08
Spain	2.0	1.8	1.8	0.12
United States	8.2	6.0	8.8	0.74
France	5.8	6.1	8.3	0.18
Italy	3.2	3.2	4.3	0.18
Japan	4.0	4.1	5.8	0.38
United Kingdom	3.9	3.0	4.4	0.20
Sweden	7.6	6.0	8.0	0.03

Source: United Nations, *Monthly Bulletin of Statistics*, July 1975, and estimates of CEPAL and of the Latin American Demographic Centre (CELADE) for Latin America.

Note: The variables for the industrialized countries are expressed in current prices of the year 1972, while for Latin America they are in 1970 prices. The absolute values for Latin America in 1972 are as follows: gross domestic product, 680 dollars; product of the goods-producing sectors, 350 dollars; manufacturing product, 160 dollars; population, 282.2 million.

Figure 2
 OECD COUNTRIES:^a COEFFICIENT OF IMPORTS WITH RESPECT TO SIZE
 OF DOMESTIC DEMAND IN SOME INDUSTRIAL SECTORS,
 IN VARIOUS YEARS^b

(Natural scale)



Source: CEPAL, on the basis of OECD, *The Chemical Industry* and *The Engineering Industries in North America-Europe-Japan*, various issues.

^aExcluding the United States in all cases, since its domestic demand is excessively large compared with that of the other countries.

^bThe following formula was used: $\log M/D_i = a + b \log D_i + c (\log D_i)^2$.

^c $\log M/D_i = -0.4642 + 1.7523 \log D_i - 0.3511 (\log D_i)^2$ years 1963-1968-1970
 (0.7663) (0.1172) $R^2 = 0.8423$

^d $\log M/D_i = -1.9714 + 2.7685 \log D_i - 0.5039 (\log D_i)^2$ years 1966-1967-1969
 (0.5923) (0.0892) $R^2 = 0.8557$

^e $\log M/D_i = -4.2845 + 4.3063 \log D_i - 0.7796 (\log D_i)^2$ years 1966-1967-1969
 (0.7492) (0.1160) $R^2 = 0.8627$

^f $\log M/D_i = -0.0043 + 2.0896 \log D_i - 0.4972 (\log D_i)^2$ years 1966-1967-1969
 (1.6157) (0.2360) $R^2 = 0.9256$

exports are rising. In the OECD countries the economies are very open in order to be competitive. The system of preferences existing between these same countries also plays an important role. Thus, in the early stages of the operation of the European Economic Community the external tariff was much higher than the internal, so that the industries were able to produce on a regional scale; once this objective had been attained, they were in a position to compete in the outside world.

Another way of expressing the same phenomenon is afforded by the relation between the proportion of demand supplied by imports (import coefficient) and the domestic size of demand. The greater the size of a market, the lower the import coefficient can be. This in fact occurs in each of the major industrial sectors of the countries which can compete at the world level, as can be seen in figure 2. As the size of the national market increases, the need to import diminishes in relative terms, since the industries of each of these sectors can operate on a competitive basis with low costs and high efficiency, by virtue of the greater size of the national market, plus exports on a relatively more modest scale. The countries with smaller markets, however, have a high import coefficient to avoid producing goods under inefficient conditions. Because of the dimensions of their markets, the smaller countries of Europe, such as the Scandinavian countries, Switzerland, Belgium, the Netherlands, etc., have specialized in the production of certain goods in each sector and import other parts or goods pertaining to the same sector which they cannot produce on competitive terms.⁶

This specialization is reflected in a high proportion of exports in relation to

production, and of imports in relation to demand.

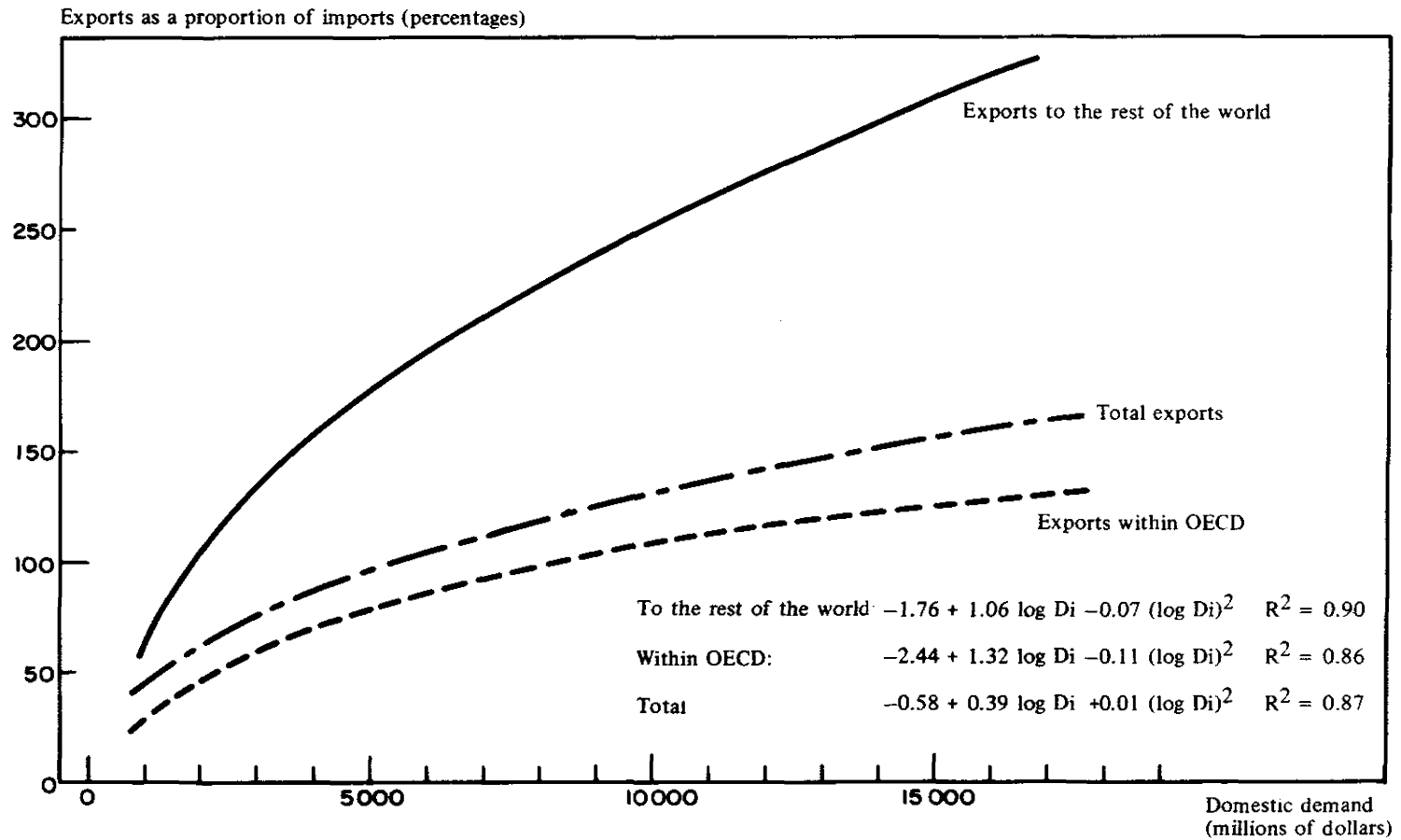
It is thus to be expected that, within each of these basic industrial sectors, the total generated by exports of some goods would be similar to that represented by imports of those which are not manufactured by domestic industry. If this occurred it would be very important, as it would make competitive production compatible with a diversified production structure including the different types of metal-transforming and chemical products that are so important for development. If the relation between the exports and imports of each of the above-mentioned sectors in the OECD countries is observed, it can be seen that in each of them there is in fact this equivalence between imports and exports, and in every case the situation of the countries becomes more favourable as the magnitude of domestic demand increases. The larger countries are in a better position to produce these types of goods internally; thus their requirements respecting imports of goods from each sector are proportionally less, and are more than offset by exports.

In a small country, on the other hand, import requirements are proportionally greater in relation to demand and may not be totally counterbalanced by exports of goods from the same sector, since the national market is not large enough to promote domestic

⁶The size of demand is not of course the only determinant of the possibilities of industrial progress. The availability of other factors —including skilled labour— is also an important element. However, the size of demand conditions specialization and the possibilities of tackling industries of these types.

Figure 3

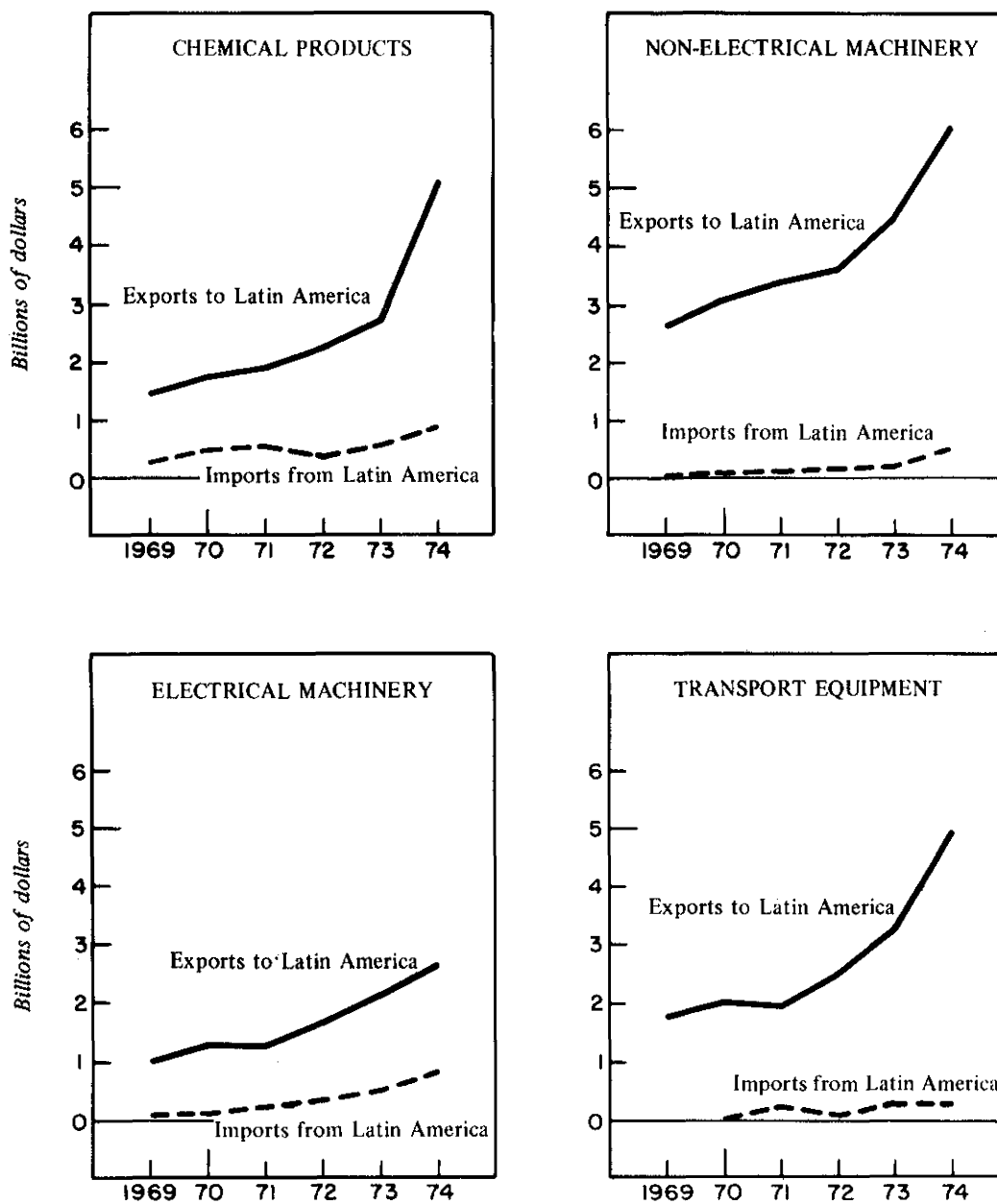
OECD COUNTRIES: PATTERN OF EXPORTS AS A PROPORTION OF IMPORTS IN RELATION TO
DOMESTIC DEMAND IN THE CHEMICAL INDUSTRY, 1971



Source: CEPAL estimates, on the basis of OECD, *The Chemical Industry, 1971/1972*, Paris, 1973.

Figure 4

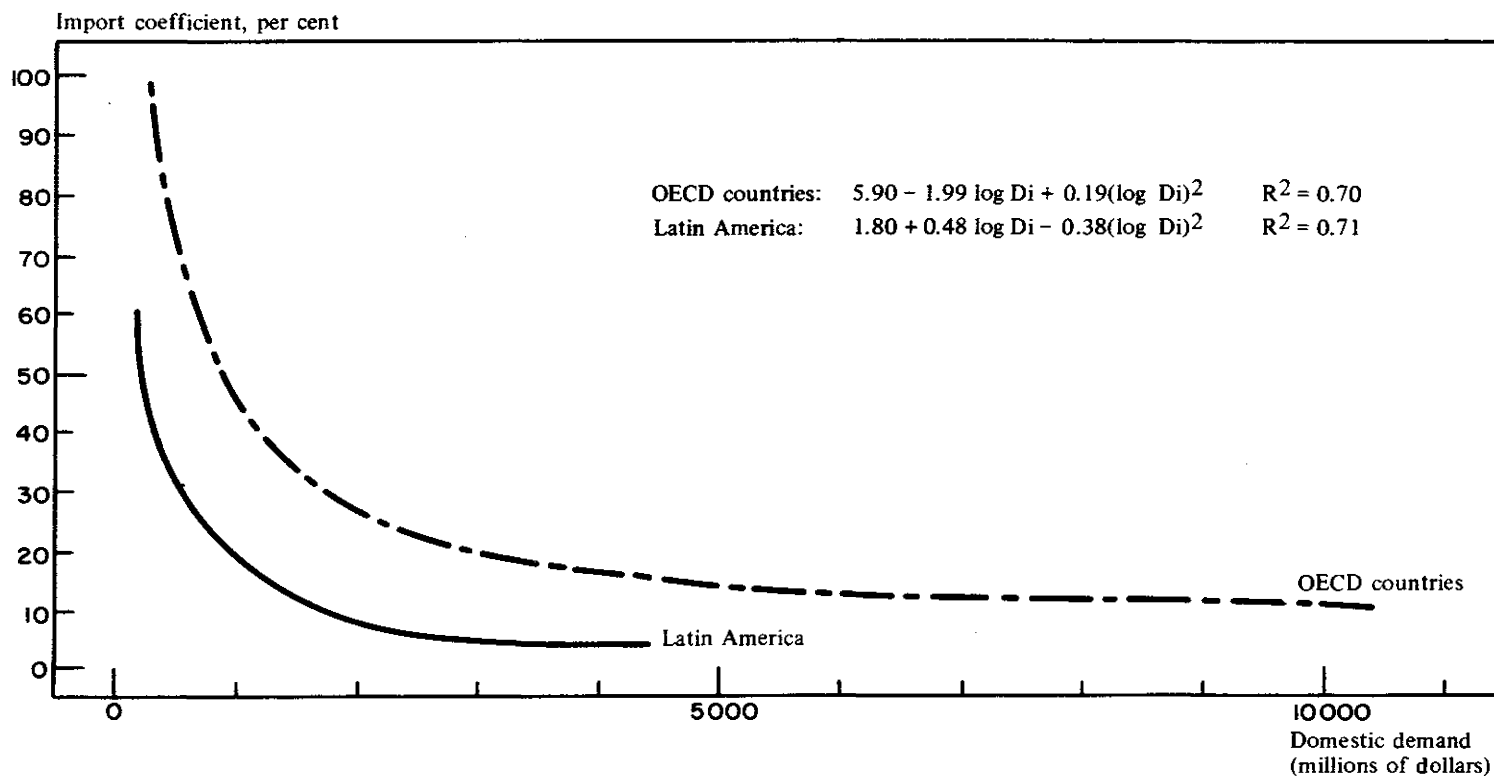
TRADE BALANCES OF THE OECD COUNTRIES WITH LATIN AMERICA IN SOME INDUSTRIAL SECTORS, 1969-1974



Source: CEPAL, on the basis of OECD, *Trade by Commodities. Market Summaries: Exports*, series C, Vol. 1, various issues.

Figure 5
 OECD COUNTRIES AND LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY OF TRANSPORT EQUIPMENT
 IN RELATION TO THE DOMESTIC DEMAND OF THE SAME INDUSTRIAL SECTOR^a

(Natural scale)



Source: CEPAL estimates, based on OECD, *The Engineering Industries, 1969/1970*, volume I, Paris, 1971.

^aOECD figures for 1969, Latin American figures for 1970.

production to the required extent. Figure 3, shows that for countries which trade in competitive conditions, such as those of the OECD, a correlation exists between the size of national demand and the proportion of exports to imports in the chemical industries.⁷ The bigger the country, the larger are its exports in comparison to imports. It can also be seen in figure 3 that the OECD countries have a consistent tendency to export more to the developing countries than they import from them, a disadvantageous situation for the latter which must be remedied, since as matters stand the developing world is helping the industrialized countries to step up their industrial development, and, in particular, allowing the smaller OECD countries to obtain partial compensation for their unfavourable position in trade with the larger countries of the Organization.

In the case of Latin America, figure 4 makes it plain that in the chemical and metal-transforming sectors, imports from OECD countries are very high and exports to them are almost non-existent. In 1973 some 45 per cent of the OECD countries' total exports to Latin America consisted of metal-transforming products, while 95 per cent of their imports from the region were primary commodities.

(d) *Relation between market size and foreign trade in Latin America*

What is the situation of the Latin American countries in respect of the relation between the size of their

⁷A similar situation is found in the metal-transforming industries, where, although the statistical correlation is less stable, a clear relation can be noted between the size of the national markets and the ratio between the totals of imports and exports.

national markets and the foreign trade of their metal-transforming and chemical sectors?

From figure 5 it can be seen that the transport equipment industries of Latin America as a whole also show the relation noted in the OECD countries between import coefficient and market size: the largest countries of the region need to import proportionally less to function with a degree of efficiency similar to that of the smaller countries. But it is likewise clearly apparent that the Latin American curve is consistently lower than that of the OECD countries; that is, the import coefficients in Latin America fall short of those which would be appropriate to the sizes of its markets if they functioned competitively. This is due to the fact that in the Latin American countries industry is highly protected and has a low level of efficiency. Furthermore, since integration among the Latin American countries is almost non-existent today, the size of each national market, and not that of the regional market, is what determines the coefficient in competitive trade.

Thus, for example, in 1972 the Brazilian market for transport equipment was slightly larger than that of Italy in 1969; but the proportion of demand supplied by imports was 11.2 per cent, as against 25 per cent in Italy. In 1972 the size of the chemical products market in Spain and Argentina was very similar, but the import coefficient in the former was 17.5 per cent and in the latter, 9.5 per cent. In the same year, domestic demand for non-electrical machinery in Mexico was much the same as in the Netherlands in 1969, but while the Mexican import coefficient was 52 per cent, that of the Netherlands amounted to 68 per cent. Similarly, there are important differen-

ces in costs between the Latin American and OECD countries.

So what would happen if Latin America were considered as a whole, that is, as a single integrated market for the operation and development of these sectors? Taking into account the size of the region's market, the import coefficient could be much lower than it is at present, and even then these sectors would function competitively at the international level, that is, in much better conditions than at present. Of course in this case each individual country would have a higher import coefficient than at present, since in addition to imports from the rest of the world there would be those obtained from other Latin American countries. It may be recalled that total Latin American demand for non-electrical machinery was equivalent in 1972 to that of West Germany in 1969, but that the import coefficient for the region as a whole amounted to around 44 per cent, while that of Germany was only 24 per cent.

In the OECD countries there is also a relation between exports, production and

demand; in fact an import-production-export cycle exists, which reflects the economic vitality of these countries in importing to export. In contrast, the low export production coefficient reflects the backwardness of the Latin American countries which do not export all that they should in order to produce competitively in accordance with their size.

In Latin America there is not yet a well-established export pattern. Exports of manufactures are developing steadily but are still not very systematic and are well below imports of industrial goods. Several countries of the region, and particularly those of greater economic size—which are precisely those whose exports reach a proportionally higher total, although their volume of production is similar to that of some European countries—have a very low export/production coefficient. The gross value of output of transport equipment in Argentina and Brazil in 1972-1973 was similar to the corresponding figure for Italy in 1969, but the export coefficient was only about 3 per cent, whereas in Italy it was 40 per cent.

2.

Future outlook

As was seen in the preceding section, great strides have been made in the industry and trade of the Latin American countries over the last few quinquennia: the growth rates of exports have been significantly higher than in the past, the degree of competitiveness of industry has gradually improved and protection policies have been rationalized.

These changes have not been intensive enough, however, to prevail over

some of the fundamental development handicaps of the Latin American countries. From the end of the 1960s onwards it was increasingly felt that the external bottleneck problems chronically afflicting these countries had greatly decreased in importance. During 1973 and the first half of 1974 this impression was strengthened by the short-lived increase in the prices of many raw materials. In the second half of 1974, however, events made it plain that these

hopes of growth without major external obstacles were merely an illusion. During that year and in 1975 heavy trade deficits were shown; in the latter year, the non-petroleum-exporting countries of Latin America, taken together, had a trade-balance deficit of 11,000 million dollars, equivalent to 44 per cent of their exports. They met this situation with very high short-term foreign borrowing, which greatly increased the impact of debt-servicing on the balance of payments. The deficit on current account of these same countries amounted to 16 400 million dollars, that is, 66 per cent of exports.⁸

In these circumstances, the discussion on possible development strategies and policy options has been resumed in many countries.

The reduction of the growth rate experienced in 1975 as a result of the difficulties of the external sector cannot be considered as a valid policy option for the forthcoming years, but must be seen as a temporary situation which must be overcome as soon as possible. Were such a reduction to be prolonged, it would seriously jeopardize the possibilities of overcoming the domestic problems of marginality, unemployment and inequitable income distribution, and would aggravate the social and political tensions which are already causing great concern to the governments of the region.

It is therefore necessary to devise an industrialization and foreign trade strategy which would make a sufficiently high and steady growth rate viable and would thus complement the internal employment and income distribution policies needed to overcome those problems.

The economic forces and policy orientations in the countries of the region, have combined two elements in varying proportions: the export of manufactures from existing sectors, and import substitution through the promotion of some of the industries which have been lagging behind. Development policies have been devised on the basis of one or other of these elements as if they were mutually exclusive options.

When the emphasis is placed on the export of manufactures —the course followed up to now by some Latin American countries— the aim is to establish a competitive economy which would permit specialization in exports from certain branches of industry on which the development effort was to be concentrated. There would thus be an open import policy, with very low protection *vis-à-vis* the rest of Latin America and the world at large. These industries which did not prove competitive by the criterion of international prices would be likely to undergo transformation or to cease production, and a purely supplementary role would be assigned to regional integration and co-operation. In keeping with what was said in discussing the relation between market size and proportion of exports in the developed countries, even the economically largest countries of Latin America would have to export a very high proportion of their output in order to be able to produce new intermediate and capital goods on competitive terms. The smaller countries would have to export most of the output of many of their sectors in order to attain scales of production comparable to international standards. Thus the establishment of new industries would essentially depend on the external markets, which would mean that the risk would be very high. All this suggests that increases in exports

⁸ CEPAL, *Economic Survey of Latin America 1975*, E/CEPAL/1014, mimeographed version, June 1976.

would derive more from industries already in existence than from genuinely new economic activities which by their growth would help to overcome the backwardness of the domestic production structure. The diversification of foreign trade, which would make it possible to lessen the predominance of primary products in exports, would not, however, prevent exports from continuing to be based on a limited variety of traditional industries, whose products would not be among those in which world trade is growing most rapidly.

The policy which lays the emphasis on import substitution also aims at continuing a course followed up to now by some countries of the region. It seeks to overcome the shortcomings of the industrial structure in the countries concerned through progress in the backward metal-transforming and chemical sectors, but to that end has to rely mainly on each national market alone, together with some supplementary exports on a small scale. Even without reverting to the policies which were followed until the mid-sixties, the degree of protection would probably have to be high for a long period, and the production of many goods would only be possible in inefficient conditions; the role assigned to regional co-operation with a view to this development of industry and trade would also be limited.

If these two alternatives, instead of being regarded as mutually exclusive, were combined, the results would be a third and different option which would depart substantially from the lines of policy so far followed by all the Latin American countries. It would consist in a policy of co-operation at the Latin American level, implemented through formal integration agreements and complementary arrangements which would allow each country to specialize

on the basis of the regional market with the aim of branching out abroad to conquer foreign markets. The support which the regional market would give to the development of each industrial sector would make it possible to reduce external protection and compete in an increasingly widening range of sectors and products, in a broad and energetic combination of exports of manufactures with import substitution and the incorporation of new sectors. Thus the establishment of new sectors for the production of capital goods and basic intermediate goods would be undertaken not only to meet the need for import substitution in each domestic market but also to export to the Latin American and world markets. Exports would not be augmented mainly by goods from existing industries, as is now the case, but also by the products of new industries which in turn would take the place of imports. The diversification of the trade structure would be a great deal more radical than in the case of the other options, and industrial export and import substitution policies would be much more rationally and genuinely harmonized and combined.

All these policy measures should go hand in hand with the broadening of the domestic market, a vigorous impulse being given to employment and income redistribution, in order to incorporate the sectors that are marginal today. These domestic policies, which are outside the scope of the present paper, should have a central role in development strategy.

Two hypotheses will be considered in the rest of this paper in order to analyse the possible repercussions of the various policy options. The first, in the nature of a prognosis, assumes that the policy orientations and forces which have been operating in the countries of

the region will continue to do so. Although it postulates exports of manufactures and import substitution, it assumes that both would be carried out without the support of regional co-operation or the market of the Latin American countries in the aggregate. In this way import substitution and exports of manufactures would benefit different manufacturing sectors. Substitution would take place in respect of capital and intermediate goods, in each national market, and with little or no export trade. Exports would come from sectors already in existence in the domestic production structure. Import substitution and the export of manufactures would be undertaken in various sectors at the same time, but would not be combined

in any one sector. The results of this hypothesis are summarized in section 3 below.

The second hypothesis postulates a significant change in current trends and a policy with very different bases from those of the prognosis hypothesis: it is assumed that the Latin American countries would agree to put into effect a resolute regional co-operation policy aimed at the industrial development of the metal-transforming and chemical sectors, which would effectively combine the export of manufactures with import substitution in each of these sectors and would give vigorous impetus to exports of goods produced by sectors already in existence. This second hypothesis will be considered in section 4 below.

3.

Where are the currently operative forces leading?

Supposing that the forces which have been in play, and which seem likely to predominate over the next few years in view of the current policy orientations, continue to operate; that the policy changes which are already being implemented and those which are clearly on the way are brought to completion; and that the trends visible in the world economy produce their effect; what influence would all this have on the structure of the economy and evolution of the Latin American countries up to the middle of the next decade?⁹ That is the question we shall now consider.

In respect of imports, we have assumed that the rate of substitution in each sector will continue to evolve in accordance with the trends recently observed; this would mean that in industries whose current development

plans continued to be applied and improved, import coefficients would maintain their downward movement; in cases in which a policy of greater liberalization of imports have contributed, in recent years, to an increase in import coefficients, we have assumed stabilization at their current level. We have also posited changes in the structure of domestic demand resem-

⁹ For this exercise a ten-year period has been taken, as it seems suitable for identifying the effects of a particular policy orientation. However, in order to interpret the results of the analysis correctly, this period should not be considered as rigorously exact but as an approximate time-span starting when the new orientations begin to take effect (after the stage of preparation and implementation of decisions and new projects) and ending in the second half of the following decade.

Table 5
LATIN AMERICA: PERCENTAGE STRUCTURE OF IMPORTS OF INDUSTRIAL GOODS

Sectors of industry	Mid-1970s			Forecast for the mid-1980s ^a		
	Intra-regional	Extra-regional	Total	Intra-regional	Extra-regional	Total
Traditional sectors	24.3	9.7	11.0	14.6	6.5	7.0
Intermediate sectors	54.2	39.4	40.7	53.7	33.8	35.3
Chemicals	11.7	18.6	18.0	12.5	18.0	17.6
Engineering industries	21.5	50.9	48.3	31.7	59.7	57.7
Non-electrical machinery	13.8	23.2	22.4	22.5	32.2	31.5
Electrical machinery	2.6	9.6	9.0	4.4	13.1	12.4
Transport equipment	2.7	13.6	12.6	2.7	11.1	10.5
Total for industry as a whole	100.0	100.0	100.0	100.0	100.0	100.0
Subtotal for chemical products, electrical machinery, other machinery and transport equipment	30.8	65.0	62.0	42.1	74.4	72.0

Source: CEPAL estimates.

^aHypothesis of an 8 per cent annual growth rate of the gross domestic product.

bling those recorded in the past, expressed in terms of sectoral elasticity coefficients similar to those of the last ten years.

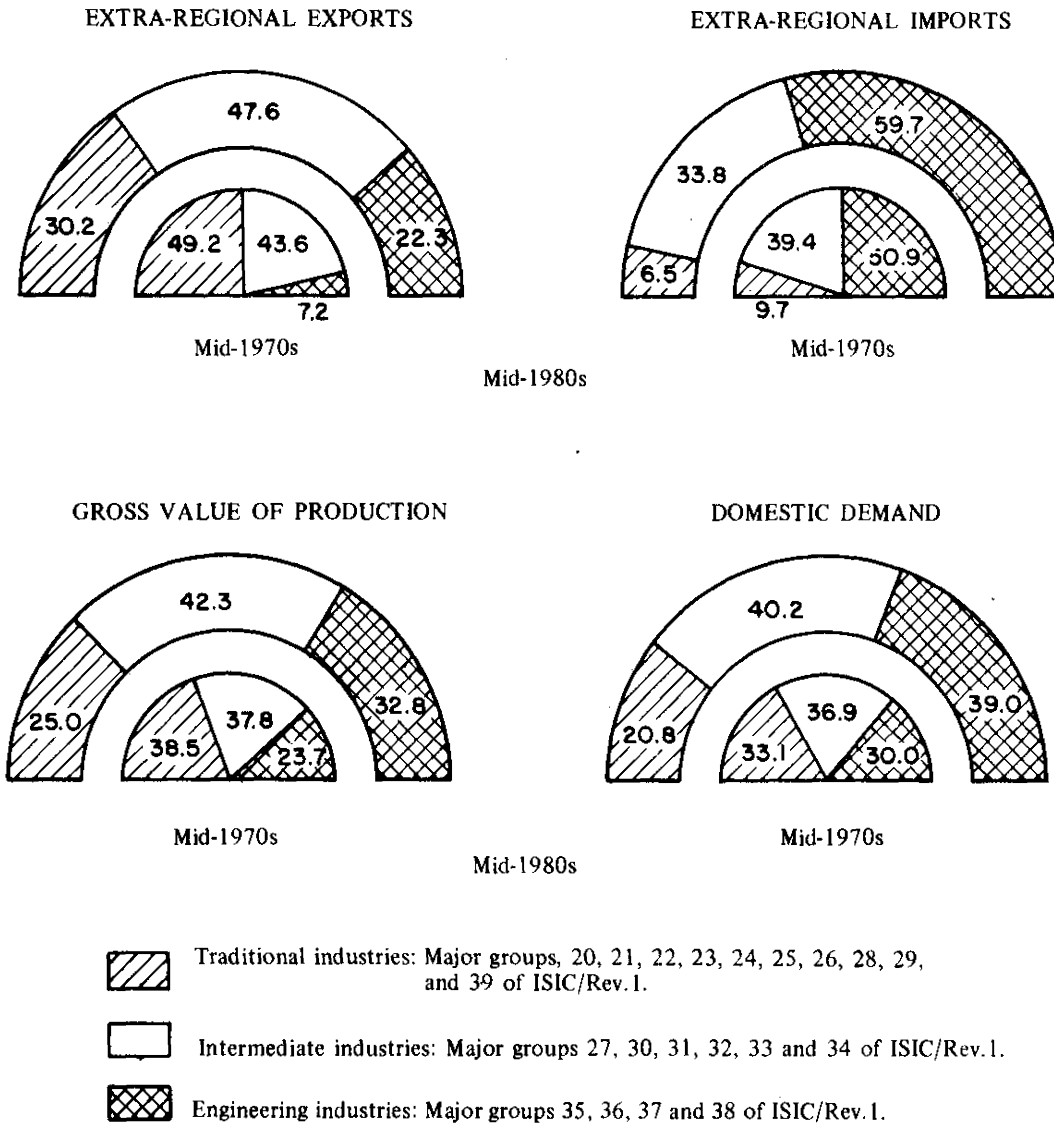
For the purposes of this exercise, we have considered separately the behaviour pattern of each country's imports from Latin America separately from that of its imports from the rest of the world, taking into account both the different composition and the differing rates of development of the two categories of imports in recent years.

As regards exports, we have assumed that all the policies adopted and the expansion plans being formulated will be implemented and will have the favourable results envisaged.

With respect to primary commodities, we have considered the growth of world demand, the expansion of sales deriving from programmes to increase production in each country, and possible exports of new agricultural commodities. We have assumed that exports of manufactures will grow at a high rate, though slightly lower than the average annual rate for the last few years; that the share of exports of manufactures in the total will continue to increase until it doubles the present proportion in the middle of the next decade; that the effort to export manufactures begun in many Latin American countries in about 1965 will continue; and that the policies and programmes in force both in the

Figure 6

LATIN AMERICA: COMPARATIVE STRUCTURE OF EXPORTS, IMPORTS, GROSS VALUE OF PRODUCTION AND DOMESTIC DEMAND IN THE MID-1970s AND MID-1980s, BY INDUSTRIAL ORIGIN



Source: CEPAL estimates.

Table 6
OECD COUNTRIES AND LATIN AMERICA: DEGREE OF COVERAGE
OF EXTRA-REGIONAL IMPORTS BY EXPORTS TO
THE REST OF THE WORLD

(Percentages)

<i>Sectors</i>	<i>OECD countries in 1972</i>	<i>Latin America</i>	
		<i>Mid-1970s</i>	<i>Mid-1980s^a</i>
<i>Traditional goods</i>	...	340	149
Food	...	2 203	1 633
Textiles	103	109	165
Clothes and footwear	25	149	340
Miscellaneous manufactures	...	15	8
<i>Intermediate goods</i>	...	74	45
Pulp and paper	927	2	3
Chemical products	545	44	30
Petroleum products	17	153	71
Metals	...	108	74
<i>Metal manufactures and machinery</i>	1 001	9	12
Non-electrical machinery	2 006	6	7
Electrical machinery	385	19	17
Transport equipment	1 605	9	12
<i>Subtotals</i>			
<i>Including petroleum exports</i>			
Primary sector	...	340	175
Manufacturing sector	...	67	32
Total goods	94	106	52
<i>Excluding petroleum exports</i>			
Primary sector	...	126	49
Manufacturing sector	...	57	33
Total goods	...	69	34

Source: CEPAL estimates.

^aHypothesis of an 8 per cent annual growth rate of the gross domestic product.

major Latin American countries and in the countries of the Andean sub-region will have successful results.

Given these assumptions, total exports of goods and services to the rest of the world would grow at an annual rate of 6.7 per cent over the next 10 years.

If the growth rates of the product were the same as in the past, or slightly higher, and if the above assumptions were realized, machinery and metal manufactures and chemical products would continue to account for the lion's share of imports. The proportion represented by these goods in total imports of manufactures from outside the region would rise from the present 65 per cent to about 75 per cent within the next 10 years (see table 5). Therefore, the predominance of capital goods and basic intermediate products in Latin America's imports would be accentuated. The structure of imports would not improve and would reflect ever-increasing external dependence in terms of the operation and growth of the Latin American economies.

Intra-area trade would still continue to play a fairly limited role and to represent a small proportion of the total, not much higher than 10 per cent.

By the mid-1980s, 40 per cent of extraregional exports would be composed of primary commodities proper; to these should be added primary products with some degree of processing by the traditional industries. Exports of manufactured goods produced by non-traditional industries would double their share, reaching one-fifth of the total within 10 years, but although the proportion of these exports would increase appreciably, it would still be much lower than in mature economies (see figure 6).¹⁰

The composition of the exports and imports of the Latin American countries as a whole towards the middle of the next decade would continue to show considerable asymmetry, with the more advanced industries still playing a limited role in exports and imports consisting of essential goods. Latin America would continue to be dependent upon exports for which world demand is growing slowly, to finance rapidly increasing import requirements.

From a more thorough examination of the performance of extraregional exports and imports in some particularly important sectors of Latin American industry it may be observed that their respective shares would continue to be very different. It should be remembered that the OECD countries export various goods produced by each sector to a value approximately equal to or even higher than that of the goods they import. In Latin America, in contrast, exports of chemical products and capital goods represent a tiny fraction of the corresponding imports from the same sectors. According to the prognostical hypothesis under consideration, the same situation would still be found in Latin America in 10 years' time. Table 6 shows that in the mid-1960s the region's exports of machinery and metal manufactures represented only 9 per cent of its imports of these same goods; in 10 years'

¹⁰ Attention is drawn again to the footnote to table 1 regarding the different definitions that may be adopted to classify manufactures. In the present case a strict definition, much more so than UNCTAD's, is adopted and only manufactures produced by non-traditional sectors are considered. If goods produced by the more traditional industries (such as textiles, footwear, etc.) are added, the share of manufactures in total exports in the last few years is just over one-fifth.

time the proportion would reach only 12 per cent. It should be recalled that in recent years, the extra-regional exports of machinery and metal manufactures of the OECD countries as a whole amounted to 10 times their imports of these items.

This clearly shows that, according to the prognostical hypothesis, the basic structural shortcomings of the system of production and foreign trade, which are fundamental obstacles to sustained growth without bottlenecks, would persist in Latin America for a long time.

These problems would also be reflected in the persistence of the chronic propensity to systematic trade and balance-of-payments deficits, which, far from being overcome, is more likely to be accentuated in the next 10 years.

Let us briefly examine this point. As the product grows, the structure of demand changes, since requirements in terms of goods with a higher import content expand more rapidly,¹¹ so that imports tend to increase faster than the gross domestic product. Moreover, if economic growth accelerates—i.e., if the growth rate of the product rises—the ratio of the growth of imports to that of the product becomes even higher. In fact, from the mid-1960s up to the present time, with the Latin American product growing at an annual rate of 6.3 per cent, imports increased by 8.4 per cent annually, or 1.34 times faster than the product. A simple exercise shows that if the assumptions regarding the performance of the economy referred to at the beginning of this section were maintained, and if the aim were to attain

a growth rate of around 8 per cent for the Latin American countries,¹² the ratio of the growth rate of imports to that of the product would be about 1.7, which means that imports would have to increase by over 13 per cent annually. This growth rate of around 8 per cent for the product is approximately the rate established as a target for the Second United Nations Development Decade. It is also similar to that required in order to be able to deal successfully with the problems of redundant manpower and marginality in the countries of the region.¹³

If such were the evolution of imports and if exports were to grow in the manner described above, it would not be feasible to obtain the historical growth rate of 6.3 per cent for the product, since in that case the trade deficit would amount to about half the value of exports, which is obviously unrealistic. It would be even more impossible to attain growth rates for the product similar to the targets for the Second United Nations Development Decade, since in this case the trade deficit would be much greater still in proportion to exports. On the basis of these same assumptions, if an attempt were made to keep the trade deficit within manageable proportions, the economic growth rate that would be feasible for the Latin American countries as a whole would be no higher than just under 5 per cent annually in the period considered. Clearly, this rate would be

¹¹ See J. Ayza, G. Fichet and N. González, *América Latina, integración económica y sustitución de importaciones*, CEPAL, Fondo de Cultura Económica, Mexico, 1975.

¹² The annual rate of 7.7 per cent estimated for Latin America is based on the growth targets for each country established in the respective development plans. This rate has been used in the projections for both the prognosis and the co-operation programme.

¹³ See Raúl Prebisch, *Change and Development*, IDB, Washington, D.C., 1970.

insufficient for dealing with the serious economic and social problems affecting the various countries.

In short, the continuance and intensification of the present industrial development and foreign trade model would bring Latin America to a dead end, with an increasingly limited growth rate and an accentuation of the basic structural shortcomings hitherto obser-

ved. It is desirable, therefore, to examine a different hypothesis not only postulating a higher growth rate but also assigning regional economic co-operation a fundamental role in the spheres of trade and industry, with a view to developing the basic sectors manufacturing capital goods and chemical products.

4.

A new form of Latin American participation in the world economy

(a) *The role of regional co-operation in industry and trade*

A different form of participation for Latin America in world trade and industry is an essential requisite for ensuring dynamic development, facilitating the attainment of full employment with better manpower training, and obtaining a fairer distribution of income, while at the same time achieving a structural change in the economy that will enable it to grow steadily, unhampered by constant bottlenecks. A strategy with these fundamental objectives must be the framework for external policies, the new role of Latin America in the world economy, and regional co-operation in industry and trade, which will be more specifically considered here.

A major component of such a policy is the sustained growth of exports of manufactures both from existing sectors and from new sectors which at the same time would substitute domestic production for imports. This would permit industrial establishments, plants and enterprises to reduce their costs and improve the quality of their products, as well as to achieve the economic and

financial capacity necessary for a more creative and autochthonous adaptation of their technology, and for the improvement of their bargaining power. In this way, the industries of the region, particularly those owned by Latin American capital and confined to the narrow sphere of domestic markets composed of minority sectors of the population, could overcome the present disadvantages.

Exports of manufactures must also contribute to the development of a group of industrial sectors which will gradually constitute an adequate manufacturing infrastructure. It is not enough to develop only some sectors of industry, virtually isolated from the rest of the economy, producing almost exclusively for export to other regions, and thus constituting new examples of enclaves; rather, an industrial network should be promoted through which exports will in addition produce effects that will make themselves felt in the rest of the economy, help to increase the product in other sectors supplying inputs or capital goods, and facilitate the dissemination of technology and the improvement of quality in a wide range

of production activities. A mature economy of which exports of manufactures are a substantial component specializes in the production of certain goods in each sector, but at the same time carries on a number of activities which are supplementary to its export activities proper. In addition to essentially manufacturing industries, it is also necessary to establish an infrastructure comprising energy, transport and efficient services that will contribute to the satisfactory development of all activities directly or indirectly associated with exports.

Industrial development in conjunction with a thriving foreign trade requires economic units of adequate size and potential. This means that the countries of the region, as well as seeking to specialize, should promote close co-operation in the production and trade areas. Such a policy is analysed below.

(b) What kind of regional co-operation policy could be adopted?

The hypothesis of a new industrial and trade policy, which was introduced in summarized form in section 2, will be developed here.

Let us suppose that the Latin American countries adopt a regional programme for industrial and trade co-operation aimed at developing, on the basis of their joint market, a group of key industries producing chemicals, electrical and non-electrical machinery and transport equipment. Of course, none of the countries would abandon the industries they already have in these sectors, but they would each co-ordinate the production increase that should take place in the future. Installed production capacity would be gradually rationalized with a view to improving its competitive

potentialities and achieving a certain degree of specialization.

A regional co-operation programme in the fields of industry and trade requires a clearly-defined scientific and technological policy, which would include among its basic objectives the satisfaction of industrial development needs. Since the resources available to the countries in the field of science and technology are very limited, it is essential to establish priorities and guidelines for their use in harmony with those needs. As the aim would be to establish an industry which could compete at the world level with the help of the regional market, basic elements that would have to be taken into account in order to attain that goal would be the introduction of technological innovations and the reduction of costs. Better advantage could be taken of the countries' individual efforts if in respect of technology too a policy of specialization and regional co-operation were adopted that would take into consideration the objectives and guiding principles of the region and of each individual country.

This co-operation, effected through formal integration processes and supplementary measures, would presuppose a more selective and specialized industrial development policy implemented along such lines that sectors of great industrial and technological importance for the regional market would be developed in each and all of the Latin American countries. Since industries would be established to meet the needs of the regional market instead of those of each separate domestic market, their costs and investment requirements would be commensurate with the larger size of the regional market. In each case, as much progress would be made as was possible

in internationally competitive conditions, in line with the behaviour of the import and export coefficients indicated above for the OECD countries which trade on a competitive footing in the world market.

Thus, Latin American industrial development policy at the regional level could in these new sectors combine the substitution of domestic production for imports from the rest of the world with extra-regional exports of manufactures, since the new plants would operate in conditions enabling them to compete on a world basis. The region as a whole and each individual country would go in for specialization within each of the sectors under discussion. Import and export coefficients in the advanced industries might be a great deal lower for Latin America as a whole than they would be for each of the national markets operating singly; however, each individual country would have a much higher trade coefficient, since in addition to trade with the rest of the world there would be the vigorous regional trade created by increased specialization.

Current extra-regional imports in the four sectors covered by the regional co-operation policy (the chemical, electrical machinery, other machinery, and transport equipment industries) still represent approximately 65 per cent of total imports of manufactured goods. If the past and present trends were to continue, they would constitute about 75 per cent of that total by the mid-1980s (see table 5). In other words, these sectors primarily producing basic intermediate products and capital goods are not only of great importance for the structure of industry and investment, but they also exercise a decisive influence on present and future imports.

It will also be recalled¹⁴ that for each of these sectors the import

coefficients are still high, even in the Latin American countries which have made most progress in industrialization, as will be seen in table 7. The situation is even clearer in the case of specific goods or small groups of goods. For example, in investment goods in the sector producing machinery other than electrical, various stages of advancement in the production process may be distinguished, depending on the degree of technological complexity. The production of simple machinery (pumps, elevators and compressors) has made great strides, even in the medium-sized countries. As regards the production of machine-tools, experience shows a predominance of import substitution in the case of multipurpose machines which are more suitable for maintenance and for use in general workshops. The manufacture of more complex machinery of key importance for development and capital formation, such as specialized machines, is in its infancy, even in the larger and more advanced countries of Latin America.¹⁵ Progress in the production of these specialized machines calls for a better knowledge of the technology of the sector in which they are to be used, and capacity for creative adaptation so as to be able to introduce innovations and compete.

Another aspect of the problem which makes it necessary to take particular care in evaluating the advances made in production concerns the prices

¹⁴ See J. Ayza, G. Fichet and N. González, *op. cit.*, particularly the figures in the annex, which show the evolution of import coefficients, at the sectoral level and by country, between 1950 and 1970.

¹⁵ Instituto de Planejamento Econômico e social, *A Indústria de Máquinas-Ferramenta no Brasil*, Brasília, 1974.

Table 7
**LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY IN RELATION
 TO TOTAL DEMAND IN THE MID-1970s**

(Percentages)

<i>Sector</i>	<i>Relatively more developed countries</i>	<i>Countries with insufficient markets</i>	<i>Relatively less developed countries</i>
Chemicals	15.8	35.7	73.6
Non-electrical machinery	43.3	77.1	90.7
Electrical machinery	21.8	41.3	78.5
Transport equipment	12.7	40.9	82.0

Source: CEPAL estimates.

of domestically-produced machines compared with those of machines imported from outside the region. Owing to the protection which has prevailed hitherto, the prices of those manufactured locally are higher than the international prices and, therefore, the proportion of total demand covered by domestic production appears higher than it actually is.

The conclusions are fairly clear: technology and market size play a fundamental role in the possible future progress of the metal-transforming industries. It will necessarily be linked with the production of capital goods, which have a powerful impact on the balance of payments and on the possibilities of freeing investment from the external bottleneck. Hitherto, import substitution in these industries has been markedly "consumer-type"; it is only in recent years that a start has been made on the production of more investment goods, and among these more headway has been made in the production of simple goods than of those with a more

important role in development. Demand for the latter is growing very rapidly; in consequence, despite all that has been achieved in import substitution, the external bottleneck, far from being eased, is being aggravated.

The Latin American co-operation programme presented in this study would therefore consist in the concerted development of the metal-transforming and chemical industries, making full use of the regional market. Both the individual Latin American countries and the region as a whole would seek to attain for each of these sectors trade coefficients similar to those of open and competitive economies like the countries of the OECD. In view of the relatively small size of the domestic markets, each country's trade with Latin America would be highly intensive as a result of specialized progress in these sectors; however, as indicated above, each country would import and export goods produced by each of these sectors, thereby diversifying its production and trade structures. Thanks to the larger

size of the regional market, the extra-regional trade coefficients of Latin America as a whole would, in contrast, be much lower, without loss of efficiency. On the other hand, the region as a whole would also gradually achieve a certain degree of specialization within each sector *vis-à-vis* the outside world, and would move towards applying a low level of protection, similar to that of open economies as in the OECD. This lower protection would be assigned to the new sectors from the outset, while that established for existing production would gradually approach the same levels.

This means that the coefficient of imports from the rest of the world would tend to diminish, so that imports would be kept within limits which could be covered by exports and a reasonable amount of external financing. The coefficient of each country's imports from the rest of the region would tend to rise, and these larger intra-regional imports would be paid for with more intra-regional exports. Altogether, the total import coefficient would increase for each country.

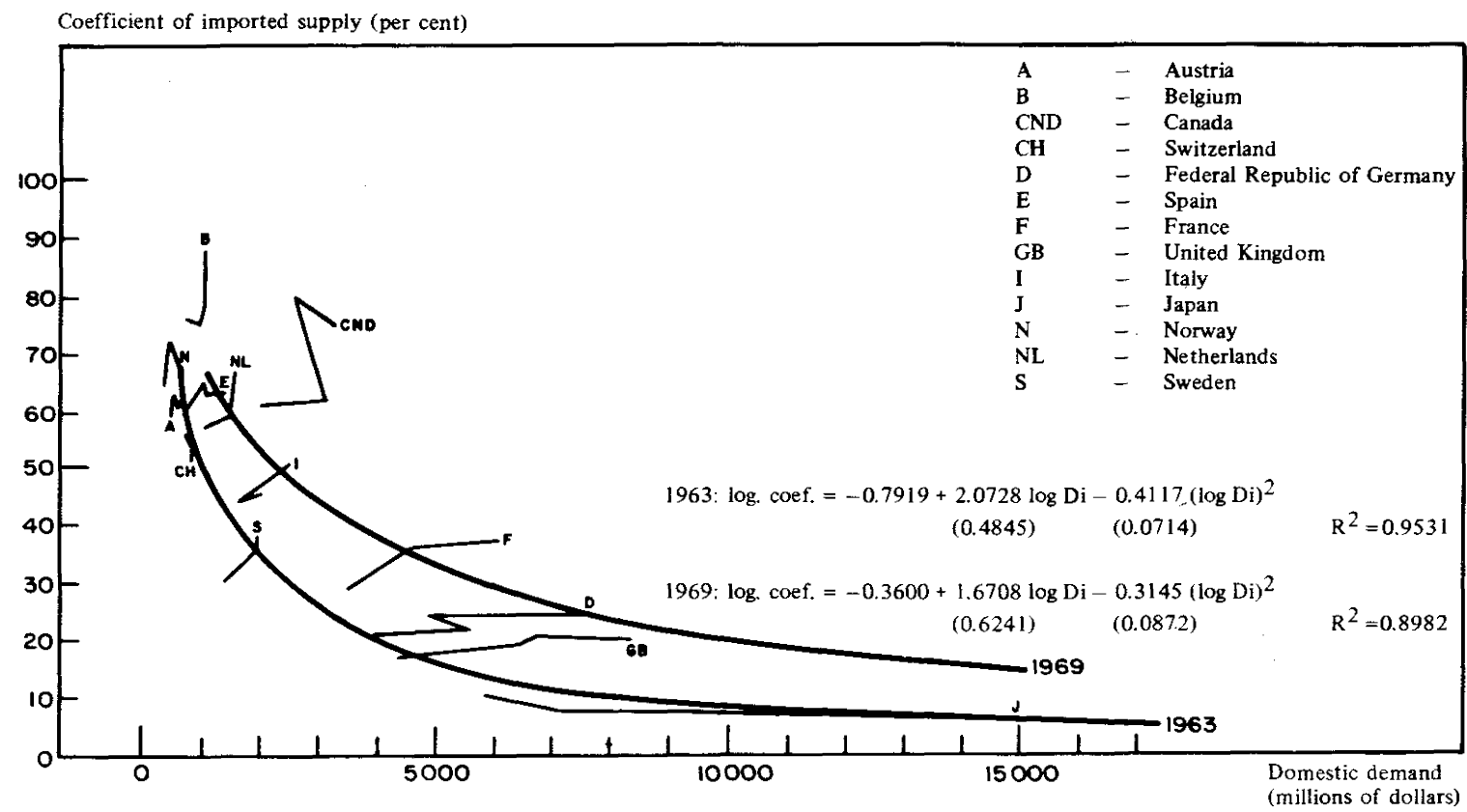
The trade coefficients of the larger OECD countries have followed a different trend from those of the smaller countries. Figure 7 shows the change in the import coefficients in the non-electrical machinery sector of each OECD country over the period 1963-1969. It may be observed that the import coefficients for the larger countries (Federal Republic of Germany, France, United Kingdom and Japan) did not increase, but rather remained fairly stable during the period, while the scale of domestic demand increased with the growth process. In contrast, the coefficients for the smaller countries (all the rest included in figure 7) rose sharply, even though domestic demand expan-

ded. This would be explained by the fact that competition with the larger countries compels the rest to intensify their specialization, devoting themselves more thoroughly to the production of certain goods within each sector, and trading more and more vigorously with third countries. It will also be seen from figure 7, therefore, that the curve showing the relationship between the size of each domestic market and the import coefficient gradually shifts in time, taking on a form which reflects this different evolution in the various countries according to the magnitude of their domestic demand.

In preparing the regional programme for Latin America it has been assumed that the countries of the region would follow a similar trend, approximating to the trade coefficients (and, therefore, the degrees of specialization) of the mature economies, in accordance with the size of the market of each country and of the region as a whole.

It should be noted that at the present time the trade coefficient of each of the Latin American countries is lower than it would be if the economy were as open as that of an OECD country. (See Figure 8.) However, the trade coefficient of Latin America as a whole is higher than it would be with respect to the outside world if the region operated as a single integrated market; in that case and in accordance with the trends corresponding to the OECD countries, the size of the regional market would make it possible to reduce the import coefficient while maintaining international competitiveness. Today, when only a limited degree of regional integration exists, each of the Latin American economies is, in practice, more integrated with economies of developed countries than with the rest of the region. Since Latin America does not

Figure 7
 OECD COUNTRIES: COEFFICIENT OF IMPORTED SUPPLY IN RELATION TO DEMAND FOR NON-ELECTRICAL MACHINERY, 1963, 1966, 1967 AND 1969



Source: CEPAL estimates, on the basis of OECD, *The Engineering Industries in 1963-1970*, vol. I, 1971.

function as a single large market, intra-regional trade is on a very small scale, and most of the imports, especially of products of the metal-transforming and chemical industries, come from outside the area. Thus the possibilities of reducing the trade coefficient are determined by the size of each national market. This programme, in contrast, assumes that due advantage is taken of the size of the regional market and thus that the relative importance of extra-regional imports would tend to diminish, while on the other hand that of intra-regional imports would increase as a result of the regional co-operation policy. Thus each country's overall trade coefficient would rise very substantially, and at the same time the trade coefficient of the region as a whole in respect of the exterior would diminish considerably, in accordance with the trend corresponding to the OECD countries, up to the middle of the next decade.

These are the lines on which the regional co-operation programme has been formulated; the ten years it covers, however, might prove insufficient to overcome Latin America's current technological backwardness entirely. Although it is implicitly assumed that in carrying out this industrial and trade co-operation the region would make a special effort to bring its economic and technological potential nearer to that of the OECD countries, it would probably be unable to make up the whole of its leeway. Thus in preparing the programme it has been assumed that at the end of the ten years there would still be a difference, although proportionally much smaller than at present, between the Latin American countries and developed OECD countries with econo-

mies similar in size to those of the region. This would mean that Latin America would have to import from the rest of the world a higher proportion of goods than would correspond to the size of its market, so as to be able to incorporate the new goods created by technical progress, which the Latin American countries would not be able to produce for lack of innovatory capacity. For this reason it has been assumed in the projections made that in the region as a whole, the import coefficients of the sectors included in the programme would be somewhat higher at the end of the period than they would have been if the economy had developed exactly like an OECD economy, in accordance with the size of its market.

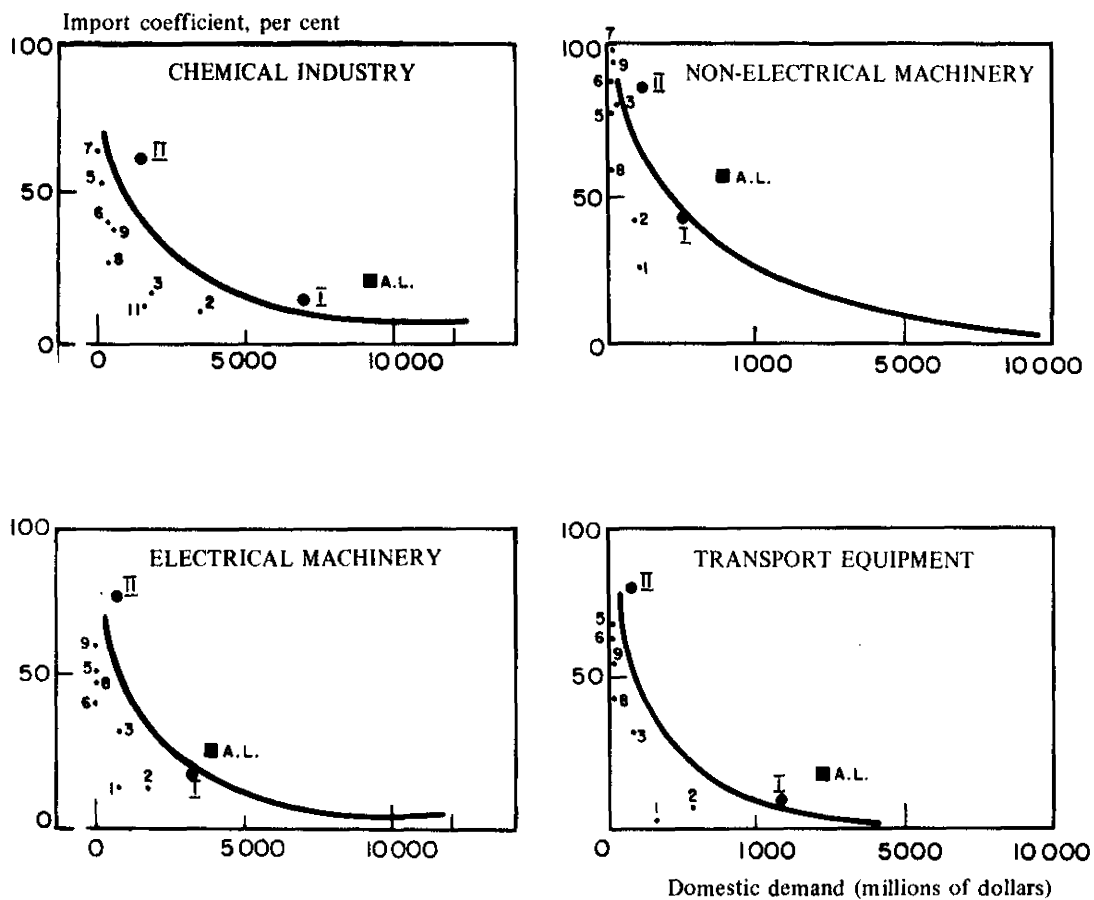
This would probably mean that the intra-regional trade and the real degree of integration between the Latin American countries in the sectors covered by the programme would be somewhat lower than would be necessary to achieve rather closer linkage with economies of greater technical capacity; at all events, however, the degree of co-operation for development and the intensity of real integration in these sectors would be much greater than at present, as will be seen later in the context of the projection of intra-regional trade.

By reducing the extra-regional import coefficient of the region as a whole to a figure situated between the level which it might reach within a decade if the current inertia continued to prevail and that it would attain if this regional co-operation policy were applied, it is possible to determine the additional growth potential of Latin American industry in the metal-transforming and chemical sectors.

Figure 8

LATIN AMERICA: IMPORT COEFFICIENTS WITH RESPECT TO DOMESTIC DEMAND
IN SELECTED SECTORS OF INDUSTRY AND THEIR RELATIVE POSITION
WITH RESPECT TO THE REFERENCE CURVE OF THE OECD COUNTRIES

(Natural scale)



1. Argentina
2. Brazil
3. Mexico
- I. Total 3 countries
4. Bolivia
5. Chile
6. Colombia
7. Ecuador
8. Peru
9. Venezuela
- II. Total 6 countries
- A.L. Latin America

Source: CEPAL estimates.

Table 8

LATIN AMERICA: PROPORTION OF DEMAND SUPPLIED EXTERNALLY AND ANNUAL GROWTH RATES OF THE INDUSTRIAL SECTORS COVERED BY THE REGIONAL PROGRAMME OF INDUSTRIAL AND TRADE CO-OPERATION

(Percentages)

Sector	Coefficients of imported supply of total demand ^a			Average annual growth rate of production		
	In the mid-1970s	In the mid-1980s		1960-1970 ^b	In the mid-1980s	
		Continuation of past trend (forecast)	Regional co-operation programme		Continuation of past trend (forecast)	Regional co-operation programme
Chemical	18.9	16.9	6.0	10.4	15.4	16.7
Non-electrical machinery	49.2	46.2	15.0	7.4	19.9	25.6
Electrical machinery	25.7	24.9	8.0	10.0	18.6	20.8
Transport equipment	18.2	18.9	1.0	9.9	12.7	14.2
<i>Total manufacturing sector</i>	<i>16.2</i>	<i>19.2</i>	<i>9.1</i>	<i>6.7</i>	<i>11.8</i>	<i>13.0</i>

Source: CEPAL estimates.

Note: The differences between the growth rates for the period 1960-1970 and the historical trends of the projections are due to the increase in the growth rate of the gross domestic product.

^aIncludes only imports from the rest of the world.

^bAt constant 1960 prices.

(c) *Effects of this policy*

The likely effects of this policy are shown in table 8. In the non-electrical machinery sector, for example, the coefficient of extra-regional imports with respect to total Latin American demand would pass from the current 49.2 per cent to 46.2 per cent by the middle of the next decade if past trends persist, but if the regional co-operation programme were applied the coefficient would drop to 15 per cent by the same date. The table also shows the great differences between these two hypotheses as regards the projected coeffi-

icients of imports by the region as a whole from the rest of the world.¹⁶ Similarly, the table shows that the growth rates of regional production in these ten years would differ considerably depending on whether the regional co-operation programme were applied or current trends persisted, especially in the group of non-electrical machinery industries.

¹⁶ For the hypothesis of the persistence of current trends, the projected import coefficient of Latin America as a whole is greater than in the mid-seventies, mainly because of the imports of petroleum which would have to be made.

Table 9
**LATIN AMERICA: IMPORTS OF GOODS AND NON-FINANCIAL SERVICES
 IN THE MID-1980s**

	<i>Past trends (forecast)</i>				<i>Regional co-operation programme</i>			
	<i>Billions of 1973 dollars</i>		<i>Percentage composition</i>		<i>Billions of 1973 dollars</i>		<i>Percentage composition</i>	
	<i>Intra-regional</i>	<i>Extra-regional</i>	<i>Intra-regional</i>	<i>Extra-regional</i>	<i>Intra-regional</i>	<i>Extra-regional</i>	<i>Intra-regional^a</i>	<i>Extra-regional</i>
<i>Primary goods^b</i>	3.7	11.5	32.2	11.1	3.7	11.5	6.4	19.6
<i>Manufactured goods^c</i>	6.7	84.9	58.3	81.9	52.6	40.1	91.7	68.2
Chemicals	0.9	15.3	7.8	14.8	16.0	5.4	27.9	9.2
Non-electrical machinery	1.5	27.3	13.0	26.4	17.1	8.9	29.8	15.1
Electrical machinery	0.3	11.1	2.7	10.7	7.5	3.6	13.1	6.1
Transport equipment	0.2	9.5	1.7	9.1	8.1	0.5	14.1	0.9
<i>Subtotal</i>	(2.9)	(63.2)	(25.2)	(61.0)	(48.7)	(18.4)	(84.9)	(31.3)
<i>Non-financial services</i>	1.1	7.2	9.5	7.0	1.1	7.2	1.9	12.2
<i>Total goods and services</i>	11.5	103.6	100.0	100.0	57.4	58.8	100.0	100.0

Source: CEPAL estimates.

^aThe intra-regional trade shown here is based on the hypothesis that the additional production would be distributed between the participating countries in proportion to the demand for these goods in each of them.

^bDivisions 01 to 19 of ISIC/Rev.1.

^cDivisions 20 to 39 of ISIC/Rev.1.

Table 9 shows the amounts and composition of imports (both intra-regional and extra-regional) for the two hypotheses. The extra-regional imports of the four sectors covered by the proposed co-operation would greatly diminish if the programme were applied and there would also be a significant change in the composition of imports, since the share of these sectors—which produce mainly intermediate and capital goods, so vital for the functioning of the economy and development—in the total purchases of goods and services from abroad would fall from 61.0 per cent to

31.3 per cent. This would mean a more favourable import structure, as its composition would not include such a large proportion of goods whose purchase abroad is difficult to restrict. Even so, imports of such goods from outside the region would still amount to a very significant absolute value, because Latin America would develop along the lines of an economy which was fairly open towards the exterior and would in no way tend to close its economy any more than was needed to allow it to attain a scale of market permitting the achievement of competitive efficiency.

As regards Latin America's possibilities of exporting goods from these four industries beyond the region, the discussion in section 2 on the behaviour of open, efficient and mature economies should be recalled. In that section it was shown that the OECD countries' exports of these types of products are similar in amount to their imports of similar goods. Since under the co-operation policy assumed here the Latin American countries would achieve a level of economic and technical efficiency and capacity not very far behind that of the developed countries, it can be supposed that this policy, likewise, would enable them at the end of the ten years, to export a volume of chemical products and capital goods similar to the figures shown in table 9 for their imports from the rest of the world.

Another aspect which calls for comment is the effect of the co-operation policy on intra-regional trade. Table 9 shows that this trade, including the reciprocal imports between the countries of each group and the trade between groups, would come to represent almost half the total imports of goods and services. Thus a high level of interdependence would gradually be attained, reflecting the increasing momentum that the co-operation itself could gain as integration became more effective. At the end of the ten years, the trade in chemical and mechanical goods as a whole within Latin America would represent 72 per cent of the total purchases of these products, i.e., a similar percentage to that achieved in the trade in these types of goods among the OECD countries, which amounted to 74 per cent in 1972. If the hypothesis which assumes no regional co-operation (section 3) is compared with the hypothesis assuming the application of a policy of intensive integration of the

countries, it can be seen that the global ratios of imported supply to internal Latin American demand in these four sectors, would not be very different at the end of the periods as table 10 shows. The main difference between the two hypotheses would lie in the geographical origin of these purchases. If past trends continue, the supply of these industrial sectors in the region as a whole would depend almost entirely on the exterior, with very little intra-regional trade. On the other hand, if Latin America operated as a highly integrated economy in competitive conditions similar to those prevailing internationally (thus needing a level of protection not much higher than that of the OECD countries) it could greatly lessen its external dependence and at the same time each country could begin to obtain high proportions of its needs from the rest of the region. The fact that this intra-regional trade would represent only about 10 per cent of total imports by 1985 if past trends continue, but almost 50 per cent under the co-operation policy, shows the vigorous impulse which can be provided by collaboration and negotiation between the Latin American countries.

The regional co-operation programme would also have very important effects in respect of the external bottleneck, as it would help to reduce the trade deficit with the rest of the world. If this policy were applied, the increased growth rate of the mechanical and chemical industries would make possible a very substantial reduction in the requirements for imports of these goods from outside the region and thus diminish by more than nine-tenths the deficit which would arise if the forces currently in operation persisted. This means that the co-operation policy would have such an impact on the

Table 10
LATIN AMERICA: COEFFICIENTS OF IMPORTED SUPPLY OF TOTAL DEMAND
(Percentages)

Sector	Mid-1970s			Mid-1980s					
				Continuation of past trend			Regional co-operation ^a		
	Total	Rest of the world	Intra-regional	Total	Rest of the world	Intra-regional	Total	Rest of the world	Intra-regional
Chemical	20.1	18.9	1.2	17.8	16.9	0.9	23.6	6.0	17.6
Non-electrical machinery	52.1	49.2	2.9	48.8	46.2	2.6	43.9	15.0	28.9
Electrical machinery	26.4	25.7	0.7	25.6	24.9	0.7	24.8	8.0	16.8
Transport equipment	18.5	18.2	0.3	19.3	18.9	0.4	17.1	1.0	16.1
<i>Total manufacturing</i>	<i>17.8</i>	<i>16.2</i>	<i>1.6</i>	<i>20.7</i>	<i>19.2</i>	<i>1.5</i>	<i>20.9</i>	<i>9.1</i>	<i>11.8</i>

Source: CEPAL estimates.

^aAlso includes the allocation of benefits in accordance with sectoral demand.

external bottleneck that a growth rate of nearly 8 per cent a year over the next ten years could be perfectly feasible for Latin America as a whole since the effective trade deficit would be of very manageable size, and it would appear that it could be overcome by the net inflows of external financing.

(d) *Sub-regional and regional co-operation*

A final aspect to be considered is that of the geographical extension of co-operation within Latin America. Two hypotheses can be analysed. According to the first hypothesis, co-operation would be carried out exclusively between the countries of particular groups, so that strong ties of trade and

co-operation would exist between the members of each sub-regional group, but there would be very few links between groups: this is what has been happening to some extent in Latin America.

In the second hypothesis, co-operation would extend to all Latin America, and even if there were some more intensive processes of sub-regional integration, there would at the same time be strong links between the different processes. We must now ask ourselves whether the results would be similar or very different in each case.

In the case of co-operation limited to sub-regional spheres, progress would apparently be easier, as it would involve attempting to link fewer countries and those with a similar degree of development could be grouped together, thus

entailing fewer potential problems of imbalance. It may be seen from figure 8 that this co-operation could give considerably better results than if there were no sub-regional or regional co-operation; the figure shows that the import coefficients of these four sectors in each of the countries of the Andean sub-region are at present lower than would correspond to the size of each country's market if they operated as open and competitive economies; the market of the group of countries taken as a whole, however, would allow the average outward trade coefficient of the sub-region to be lower than at present, in similar conditions of specialization and competitiveness to those of the OECD countries. This is also true in the case of the three economically largest countries of Latin America (Argentina, Brazil and Mexico). Each of them, according to figure 8, currently has a lower import coefficient than would correspond to a competitive economy of similar size, but the grouping together of the three would create a size of market which would have a smaller import coefficient than they have at present. These two sub-regional groups, which are shown here merely by way of example, are of course chosen only to illustrate the kind of results that could be gained from such sub-regional schemes. It may be concluded from the foregoing that it is better that there should be co-operation, even within the limited context of sub-regional groups, than that there should be none, or very little, as has been the case up to now.

The same figure also shows that co-operation is far more beneficial if it is not only carried out within the restricted sphere of each of the sub-regional groups but also extended between them. It can also be seen that the extra-regional trade coefficient, in relation to the total size of the Latin American market and

on similar conditions of specialization and competitiveness as those found in the OECD countries, is considerably lower than that of each of the two sub-regional groups; thus, for example, in the case of non-electrical machinery, the import coefficients of a competitive economy in the Andean sub-region and in the group made up of the three largest countries of Latin America would be 62 per cent and 46 per cent respectively. For Latin America as a whole, however, according to the same assumption of a competitive economy, the import coefficient would be only 35 per cent.

It can thus be said that although co-operation limited to sub-regional groups is better than a situation of national isolation, it attains much more limited results than co-operation extending to all the Latin American countries, even if there continue to be very strong links within each group. The benefit of broad co-operation, of regional scope and not limited to sub-regions, is greater for the intermediate and small countries than for the large countries. This is clearly shown by the figures and is due to the fact that in the intermediate and small countries the market sizes are further away from the sizes recorded for the region as a whole.

If there are strong links within the sub-regions, and solid co-operation between them, it is necessary to promote the productive specialization of each of the sub-regions or each of the groups of countries with a similar level of development, so as to arrive at a balanced situation in which all of them attain results that satisfy them.

This raises the problem of establishing a balance between countries of initially unequal development which are seeking integration.

In the past, traditional instruments such as trade liberalization, common

external tariffs, free movement of factors, etc., have tended to accentuate the imbalances in distribution when applied indifferently to all the countries. If a policy of regional co-operation like that analysed above were implemented and the distribution of the new industries were left to the free play of the market forces, the countries which started in a more advantageous position would probably obtain a higher proportion of the net additional benefits.

The largest countries are most attractive when considering the location of a new industry, because they have a larger domestic market, a greater degree of industrialization with the accompanying infrastructure, greater capacity for domestic financing and foreign borrowing, more labour and managerial capacity, more developed technology, etc.

Another way of approaching this problem so as not to leave the situation at the mercy of the free play of the market forces would be to complement the system of markets with a policy aimed at securing a more equitable distribution of the benefits of this programme between the countries by modifying the initial disparities during the integration process.

The study of the balanced distribution of benefits raises theoretical and practical difficulties partly attributable to the fact that the approach to the problem is subject to circumstantial negotiations, appraisals and effects. The considerations involved are not only commercial, although the distribution can be expressed in each country in terms of foreign trade which is balanced both in global amounts and in structure. It is necessary to take into account, among other aspects, the effects of co-operation on the general development of each country, its production structure

and its possibilities of dealing more adequately with excess labour and marginality and alleviating the problem of the external bottleneck.

An adequate distribution of the benefits and costs of the programme cannot, of course, resolve the economic development problems of the less advanced countries unless it is complemented with a vigorous domestic effort. At all events, however, a policy aimed at securing regional balance is a very important element in the development of these countries.

(e) *Instruments for co-operation*

This study has discussed some of the main possible characteristics of a development strategy aimed at certain objectives of growth and transformation of the production structure. In order to carry out such a strategy, it would be necessary to apply instruments and policies which need to be analysed at length. Although such an analysis is outside the scope of this paper, it is worth noting some particularly important aspects.

One of the instruments for co-operation is the formation of multinational Latin American enterprises. There are various factors which may induce countries to undertake co-operation activities through multinational enterprises. These include taking advantage of economies of scale, of the improved efficiency deriving from specialization, of the economies gained in the provision of supplies domestically or in third countries, of the advantages of better and more adequate marketing in association with third countries, of the better conditions for securing technology and, in general, of the strengthening of the position of the countries and regional enterprises with respect to the trans-

national enterprises. Although the development of multinational Latin American enterprises is still a recent phenomenon, there are notable cases of entities of this nature and of associations between Latin American national enterprises for industrial production and for the exploitation of natural resources (mainly hydroelectric) or the operation of public services.¹⁷ In general, these ventures involve capital from only two countries, although in the Andean sub-region the activity of these enterprises has effects on the markets of other countries (sectoral programmes of industrial integration); such Latin American binational or plurinational enterprises can be mixed or totally private.

Other forms of governmental co-operation are also being developed in the region: the economic co-operation agreement signed in 1974 between Argentina and Uruguay; the general treaty of friendship, co-operation and trade, signed in 1975 between Brazil and Uruguay; the participation of Venezuela in the Andean Development Corporation, in the Central American Economic Integration Bank and the Caribbean Development Bank, and the special financial resources which it has provided for the Central American countries; the formation of the Union of Banana-Exporting Countries; and the programmes of export credit established in

Argentina and Brazil to facilitate their sales of machinery to other Latin American countries.

The treatment extended to transnational enterprises is also important in regional co-operation. The essential objectives are to increase the negotiating power of the Latin American countries, to fix norms of conduct which are compatible with the interests of these countries and acceptable to the transnational enterprises themselves, and to establish development plans to which the transnational enterprises should adopt their activities so as to better serve the long-term needs of the countries. The joint action would be more effective if it succeeded in establishing and enforcing a set of regional and national objectives to which the foreign firms should adhere, and negotiating specific agreements within the guidelines thus fixed. This would help the relations between the transnational enterprises and the Latin American countries to be more stable, as they would rest on a more satisfactory foundation.

Co-operation between developing countries, and in particular regional co-operation realized through integration schemes and complementary agreements, should serve as one of the instruments for securing a new role for Latin America in world industry and trade.

Bilateral agreements and agreements between limited groups of countries can be useful as instruments for securing the creation of a network of effective trade interrelations between the Latin American countries. Both types of agreements have limitations, however, because they do not provide scope for a sufficiently big expansion of trade and co-operation to enable industrial production to attain dimensions corresponding to large enough installations to permit it to compete at the world level. For this

¹⁷ In the infrastructural field, mention may be made of the hydroelectric plants at Itaipú (Brazil-Paraguay), Salto Grande (Argentina-Uruguay) and Yariceta-Apipé (Argentina-Paraguay). In transport, there is the *Flota Mercante Grancolombiana*, the Caribbean Multination Shipping Company, and the construction of the trans-Amazon highway. Finally, in the industrial area, the Bolivian-Argentinian pesticide plant, the *Ecuadoriana de Atún* (Chile-Ecuador) and Monómeros Colombo-Venezolanos are worthy of note.

reason, these limited agreements must be considered in relation to broader schemes of co-operation between the Latin American countries.

The world economy is now ruled by large economic blocs, and there is no room in it for isolated countries or small groups of countries. Even the developed countries tend to combine in very large units—such as the EEC, which contains 9 countries—and to intensify the relations between blocs on multilateral bases. The markets of the Latin American countries, which are already limited because broad sectors of the population do not have access to them and because of the low average per capita income, are still much more isolated from each other. Because of this, the countries of the region have to limit their objectives even more than the shortage of available investment resources and their balance-of-payments restrictions would otherwise make necessary. The main part of the effort to overcome the problems of poverty and backwardness must be made by the developing countries themselves. In the next few years international financial co-operation must play an important role, but it can only be complementary to these internal efforts and cannot replace them or become the centre of the economic policies. The efforts at regional financial co-operation can contribute much, however, to maintaining the balance of payments, the systems of payments designed to

promote mutual trade, the financing of projects of common interest, and the heightening of the region's negotiating power abroad.

Side by side with its efforts to intensify regional co-operation, Latin America must participate actively in the creation of a new economic framework for development, through co-operation within the Third World. Within the context of collective autodependence, co-operation entails a great increase in the horizontal links between Third World countries in many aspects of economic activities. These links should be much more diversified and go far beyond traditional economic integration to include measures in the spheres of trade and industrial development, monetary policy, international financing, and technology.

A number of the instruments of Latin American co-operation—physical infrastructure projects, bilateral agreements between various countries, the creation of binational or plurinational enterprises, the exploration and exploitation of renewable and non-renewable resources, financial co-operation—would make it possible to put into effect the regional programme of industrial and trade co-operation referred to in section 4. It is only through decisions like these that the economic integration of Latin America can make progress, since they give the process coherence and rationality.

Types of income concentration and political styles in Latin America¹

*Jorge Graciarena **

This study examines the forms of income concentration in capitalist economic growth in Latin America. First it deals with the recent income distribution trends of a number of countries in the region, highlighting the forms of concentration in different periods. It goes on to study the types of concentration which can be inferred from the trends observed and the structural forms and specific political processes which accompany them, taking into account some of the economic explanations which have been in fashion in recent years. Finally, it attempts to show that the patterns of income distribution, besides having undeniable economic foundations, at the same time possess deep roots linking their composition and transformations with the prevailing social structure, political régimes and styles of development.

¹ The first draft of this study was finished during the second half of 1974 and later revised in form rather than in substance.

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1. Economic theory and income concentration in development

Concern for income distribution trends and their relationship with economic growth and social development has become so great in recent years that the topic has acquired top priority in international forums and in the academic centres of Latin America. After having occupied for many years a central position in political debate, the problem of income concentration has once again become topical in intellectual circles, due in part to the interest aroused by the question of development styles and, at another level, to the practical need to make economic growth compatible with social welfare at a point in time when the trend towards concentration is still very much at work.

Thus the controversy on this question, to which we will return later, mainly concerns the extreme inequality of income distribution—how little the poorest strata receive and how much those at the top of the scale receive—and the effect of this situation and possible changes in it upon short-term economic growth. The discussion involves a mixture of humanitarian arguments, developmental concerns and private interests related to the political stability and continuity of the current economic and social systems. The question is of long standing, perhaps as old as the world itself, with the difference that now, in some circles, there is an attempt to discuss this highly complex subject as if it were a technical problem without social and political ramifications.

Over the last few decades many authors have reviewed the available statistical data with a view to discovering the relationship between economic

growth and income distribution. In 1954 Simon Kuznets, after asking whether inequality in the distribution of income increases or decreases in the course of a country's economic growth, found empirical grounds for the hypothesis that in the first stages of industrialization of the under-developed countries income inequalities will tend to increase until the balancing forces are sufficiently strong to stabilize and subsequently reduce them. Later in the same work, after examining a considerable amount of historical data on the original industrialized countries, he finds that the hypothesis is sufficiently proven and asserts that in the under-developed countries, too, economic growth has led to greater inequality of income distribution.²

Kuznets' study emphasized the high concentration of wealth which existed as a result of the lack of dynamic forces working towards greater equity in income distribution or of government policies with the same end. From a similar standpoint, W. Arthur Lewis re-examined the theoretical foundations of income concentration, returning to the fountainhead of classical economic theory, above all Adam Smith and Ricardo, and asserting with them that if there were unlimited supplies of labour, wages would inevitably tend to fall to a subsistence level. In a situation of under-development with abundant supplies of labour, capital formation and technical progress result not in raising

wages, but in raising the share of profits in the national income.³

This absence of redistributive forces in the growth process stems from inadequate capital formation because "savings are low", the reason being "not that people are poor but that capitalist profits are low". Later, "as the capitalist sector expands [in comparison with the traditional sector], profits grow relatively and an increasing proportion of national income is re-invested".⁴ Nevertheless, so long as the supply of labour is unlimited, wages will remain low and close to the subsistence level. Thus this analytical model assumes indefinite population growth; a wholly unstructured labour force, which is therefore at the mercy of the "laws of the market"; unrestricted job mobility of the population; and a lack of government policies to correct this bias in the allocation of income.

In all these cases it is assumed (and Kuznets strove to prove) that this period of penury is no more than a transitory phase which will invariably be overcome as soon as production grows and the economy is sufficiently modernized for the dynamic forces characteristic of the capitalist system to emerge; these will counteract the trends towards income concentration and give rise to a more equitable structure in the following phase.

More recently, F. Paukert reviewed the existing statistical data for a large number of countries and examined the hypothesis of Kuznets, who—as mentio-

² S. Kuznets, "Economic Growth and Income Inequality" in *The American Economic Review* (Vol. XLV, No 1, March 1955, pages 1-28). Kuznets later returned to this problem in: *Six Lectures on Economic Growth*, Illinois, The Free Press, 1959; and also in: *Modern Economic Growth: Rate, Structure and Spread*, New Haven, Yale University Press, 1969.

³ W. Arthur Lewis, "Economic development with unlimited supplies of labour", in *The Manchester School of Economic and Social Studies*, Vol. XXII, No 1, January 1954, p. 190.

⁴ *Ibid.*, p. 190.

ned above— had tried to verify it empirically only for various historical phases of the industrialized capitalist countries. Unfortunately Paukert's work is not historical but rather synchronic since it compares the contemporary situation of countries with very different structures and income concentrations. At all events, however, his findings are important. His main conclusion confirms Kuznets' hypothesis, since he found a widespread situation of higher income concentration in the countries with lower levels of development (measured by the per capita product) or, in other words, an inverse relationship between the two, which changes when the levels of development are raised, with the result that the coefficients of inequality are reduced. This change is not gradual but occurs when a certain threshold in the degree of development is passed. This turning-point where distribution begins to improve occurs, according to Paukert, in countries with a development level of around 500 dollars per capita: i.e., a level which is lower than the present average per capita income in Latin America.⁵

These studies, both theoretical and empirical, are of great interest for a better understanding of the increasingly abundant information on the problem of income concentration: a problem of great importance not only in connexion with other related economic problems, such as the size of the domestic market and the demand profile, but also with regard to the job deficit and the social tensions and political conflicts generated

⁵ See F. Paukert, "Income distribution at different levels of development: a survey of the evidence" in *International Labour Review*, vol. 108, Nos. 2-3, August-September 1973, table 6, pp. 114-115, table 7 (p. 118) and diagram 1 (p. 119).

by inequitable patterns of distribution of wealth and income.

In the present study⁶ we shall briefly survey the available data, above all to test the validity of the hypothesis of increasing concentration and see if this

⁶The theoretical scheme of this study is based on some distinctions about levels of analysis and of reality which cannot be discussed here because of their nature and complexity. Starting from an earlier study of ours ("Estructura de poder y distribución del ingreso en América Latina", *Revista Latinoamericana de ciencia política*, Vol. II, Nº 2, August 1971), we distinguish three analytical and objective levels according to their degree of generality and autonomy. The first is the *economic and social system*, which in this study corresponds to *capitalism*; in general, when we talk here of "capitalist concentration" it is implied that capitalism as a mode of production constitutes the basis of the income distribution. The second level is the *economic and social structure*, which is a national structure conditioned by the social system and its historical situation, including the international order. Finally, there are the *styles of development*, which are the concrete historical forms adopted by the structures and systems in the specific hegemonistic situation at any particular time. It is at this last level that political forces have their freest play, although by no means to the exclusion of possible short-term variations of economic origin.

Countries which are part of the same social system and have similar degrees of development nevertheless have different types of income concentration. An explanation must therefore be sought for these variations which sometimes occur within a single country at different but neighbouring periods in its history. Our main, and very modest, proposition is that at this level, with the system and the structure remaining constant, the political régime and the hegemonistic style accompanying it are essential factors in the changes in the types of concentration. This study therefore stresses the possible causal forces stemming in the short term from the political régime and specific historical situations, bearing in mind the conditioning effect exerted on them by the prevailing social system and the structural basis of the distribution of income.

trend is reversed when Latin America reaches the income threshold in question, leading to a more equitable structure of participation. We shall also attempt to identify particular types of income concentration. Finally, we shall examine the relationship between specific forms of income concentration

and more general socio-political structures. In other words, we shall attempt to show that political régimes and public policies are something more than a residual factor in explaining the structure and continuity of patterns of income distribution.

2.

The structural foundations of income concentration and its recent trends

Current studies of income concentration in Latin American countries view participation in the social product as being determined by various kinds of factors. First, it is argued that the region's colonial past and the natural resources and particular historical circumstances of each country conditioned the initial formation of highly concentrated distribution patterns, as well as a structure of land ownership and possession of liquid assets (in other words, wealth) which was from the start also very concentrated. It is further held that technological and social modernization has been occurring in such a way as to change the traditional distribution patterns but at the same time maintain, although in different ways, a high level of income concentration. However, the claim is still made that these concentrative trends will be reversed in the future, when economic growth will produce its rapid, far-reaching corrective effects once the modern capitalist mode of production becomes widespread. The third argument, widely encountered inside and outside Latin America, is that of structural heterogeneity, which rejects

the latter possibility and postulates that the highly inequitable distribution of income prevailing in the region will continue for a long time, despite the great economic growth which has occurred in recent decades, because of the great differences in sectoral productivity characteristic of the growth of underdeveloped economies. This structural heterogeneity will contribute to the destruction of the bases supporting archaic forms of inequality, but at the same time it will create new ones, which will tend to last as long as the conditions moulding them remain.

In one of the first comparative studies on income distribution in Latin America carried out by CEPAL it was pointed out that the growing inequality which could be observed, with high absolute levels and the concentration of total income at the top of the scale, was a feature common to all the countries of the region. In addition, this income concentration in the top decile was essentially a reflection of the concentration of ownership, which should not be interpreted narrowly as the ownership of property as such, but also included

sources of credit, market positions and other factors of that kind.⁷

Income concentration, then, was interpreted in that study as an inherent feature of the process of capitalist growth as it was occurring in the region. It was therefore supposed that the process would naturally tend to have the effect of concentrating income in the groups at the distribution peak, unquestionably a small segment of the population—generally 5 or perhaps 10 per cent—composed primarily of capital-owning entrepreneurs, a smaller proportion of top executive and salaried supervisory-level employees of domestic and foreign private companies and public sector bodies, and a still smaller number of rentiers, passive stockholders who do not personally take part in the productive process.

This trend towards concentration appears as a general feature of economic growth which is heightened in conditions of dependent under-development. When the same study goes on to analyse income distribution in Argentina, however, a reservation is made about the size of the share of the middle sectors in the country's income, and it is asserted that their advantageous position is to a large extent *a political matter*.⁸ In other words, it is expressly admitted that besides economic, structural and conjunctural factors, political events and processes may have a considerable influence on the specific form taken by an income distribution profile and on the position of the different social groups in it. On many occasions CEPAL documents have pointed out the effects of non-economic factors which have in

various ways affected the dynamics of income distribution. However, these references have usually been made in passing and are not systematically incorporated in the body of the explanation of the forces responsible for the concentration of income at the top of the scale.⁹

This is not the moment to indulge in a theoretical discussion on income distribution. As indicated above, we are concerned rather with identifying the configurations of the concentration process in Latin America; in other words, with determining whether concentration really is more intense at the top or at other levels of the scale, in which groups it is most concentrated, and in what political conditions. We are also interested in discovering to what degree the expectations of greater equity as the economy grows and diversifies are fulfilled. Thus the fundamental question is whether the income increments generated by economic growth are more

⁹The argument about the problem of income concentration as an "organic" requirement for capital formation has grown sharper recently, particularly in the countries where the concentrative effects have been shown to be particularly strong. The opposing positions on the question are clearly defined: on the one hand, there are those who argue that income concentration is vital to obtain high rates of capital formation, efficiency and economic rationality; on the other, those who assert that economic growth can be made compatible with social welfare, that in any case the latter should always have priority, and that if some sacrifice is necessary it should affect economic growth rather than social welfare. It is not our concern here to study the grounds of the controversy, still less to judge the validity of the arguments. It is worth recalling this matter, however, because the positions outlined are somewhat like the foundations of the economic and social policies which contribute to the different forms of income concentration. We shall return to this problem later.

⁷CEPAL, *Estudios sobre la distribución del ingreso en América Latina*, mimeo, E/CN.12/770, 29 March 1967, p. 6.

⁸*Ibid.*, p. 6.

or less strongly concentrated than the volume of income generated in the preceding phase, where this concentration occurs and what its political causes are.

Regrettably, the information available is neither complete nor entirely reliable; there are sometimes quite important contradictions when data from different statistical sources are collated. It should also be noted that it is only in a few cases that information is available for a sufficiently long period to be able to make relatively sound inferences about trends. Thus the data at hand and the analyses based on them do not enable a precise and reliable evaluation to be made of the direction in which income distribution is moving nor of its particular features with regard to social groups, occupation strata and educational levels.¹⁰

¹⁰ The available information has increased sharply in recent years, but the disaggregation, precision and reliability of the results are still inadequate. Most global estimates are based on assumptions which are apparently plausible but far from having been proven empirically. In addition, their coverage is only partial because they do not include items which, while not monetary income, are important for the levels of welfare and consumption of the different strata of the population (credit, consumption of own produce, personal services, etc.). Finally, the existing estimates only link in a very limited way the trend of income distribution with the accumulation and rotation of wealth. A large part of capital profits are not converted into income, but are retained in companies to produce further capital increments which constitute potential sources of future income. Due to these and other shortcomings, the problems of income concentration must be studied separately from the accumulation of productive assets and other forms of wealth. It is known that there is an almost osmotic relationship between the income pyramids and wealth but, unfortunately, there is little soundly-based knowledge available on this question.

For the time being, what is known about income distribution in the more representative countries of the region is that, with conjunctural variations, the trends towards concentration have continued to rise in most countries, have come to a standstill in some, and have dropped in only a very few cases.

Furthermore, two types of concentration may be observed. The first, at the apex of the distribution pyramid, as suggested by classical economic theory, we shall call *elitist* concentration. The second, mainly in the segment just below the apex, i.e., the upper middle sectors, we shall refer to here as *mesocratic* concentration.¹¹

It would be equally important to have data that would permit the study of the relationship between income distribution trends and the occupational structure, properly broken down by occupational types, levels and sectors. Similarly, better and more complete information is needed on education and its effects on distribution and on consumption by population strata and in relation to occupation and incomes. Finally, too little is known about the use of income in the consumption unit, i.e., the family, about who allocates and distributes it within the unit, and in accordance with what needs and criteria. These reservations on the quality and coverage of the statistical data on income distribution are not necessarily dispelled by the use in some studies of econometric devices with sophisticated mathematical formulae, statistical coefficients and graphs.

¹¹ It is only too well known that the problem of identifying and defining the middle sectors, strata or classes is highly complex, both because of their intrinsic nature and structural position—which can only be conceptualized in a broader general theoretical framework—and due to their own internal heterogeneity, which grows ever greater with the modernization of society. Besides these complications, there are those of a methodological nature which arise when one attempts to situate these social aggregates in specific contexts, i.e., when one thinks about them as occupational, educational,

In both cases, as the terms we have chosen show, these conceptual types allude not only to the direction in which income is mainly concentrated, but also to the nature of the prevailing structure of domination and the stratified groups predominant in it and in the income distribution. Thus the analytical categories used combine the dimensions of income and power, which converge at the apex both of the distribution and of the existing mode of domination. Consequently, the explicit proposition which

forms the point of departure for this study is that these two dimensions, income concentration and social power, are closely related. It is also assumed that the appropriation of income is one of the main targets of political action and struggle, particularly in the context of development styles defined by the need to achieve high rates of economic growth with patterns favouring concentration, so as to enable high private capital formation to take place in the economy.

3.

The types of income concentration and some illustrative cases

Our purpose in presenting the following data on income distribution is not to describe and explain the concentrative trends, at the national level, of the countries mentioned in the text¹² but rather to illustrate possible forms of distribution which appear to be emerging in the present Latin American economic

and political situation. Thus we shall study not national situations but cases embracing problems of a more general character, with a view to finding out whether it is possible to distinguish within them, as is assumed, varying trends in income distribution and concentration related to their more general social formations and socio-political styles.

consumption or income layers. The practical distinctions differ considerably. For our purpose, unless otherwise indicated the following income strata will be distinguished: *high*, those in the top 5 per cent of the distribution; *upper middle*, those immediately below, but not lower than the top 20 per cent (top 5 to 20 per cent); *lower middle* or intermediate, a vaguer category which generally refers to the levels beneath the preceding ones but above the bottom 40 per cent of the distribution; and *popular*, the remaining bottom 40 per cent, within which the *poor* represent the bottom 20 per cent of the distribution. To repeat, these groupings are conventional and approximative, and sometimes there are slight nominal or aggregative changes. Finally, distribution is most dynamic in the top 20 per cent, which is also where most of the modern sector of the economy is concentrated.

In other words, the problem is to determine the forms adopted by the process of income concentration, the degree of concentration in each group or stratum, and the explanation of these features of income distribution in a broader framework which takes into account the economic growth and socio-political dynamics of the styles of

¹² Naturally, we are not attempting to replace or even summarize the sources mentioned below, nor are we questioning their validity. In some cases, an indication is merely given of their limitations in coverage and comparability.

capitalist development in the region. The present study is aimed in this direction but has a more modest objective, which is little more than to indicate tentatively some of the more striking political and structural features of the process of income concentration.

The concentrative trends observed in most countries of the region can be classified in two clearly differentiated types which are, it may be recalled, elitist and mesocratic concentration. The two types are distinguished by differences in the main indicators of income distribution, but these in turn represent different development styles and thus varying coalitions of social forces promoting them through action in various political circles. All this is what we shall attempt to identify below. For the time being, we shall begin with the examination of the available empirical information.

The elitist type of concentration

This could be illustrated by the situations in a number of countries of the region. It is characterized by an increasing concentration of income among those at the apex of the distribution pyramid (top 5 per cent), at the expense of the middle and bottom groups. The strongest concentrative trend is in the urban sector, where almost all the industrial and service enterprises are to be found. Thus it is associated with the high growth rates of these activities, particularly the so-called dynamic ones, which are what give the expansion of the economic system its stimulus and main direction. In this stage at least, the effect of economic modernization tends to be concentrative, since the increment, mostly generated by the dynamic sectors of industry, tends to be accumulated as much as or more than income was

concentrated in the preceding stage. This may be seen from the rising coefficients of inequality and rates of participation of the groups at the top of the distribution, and also in the breakdown of income by productive sector.

The case of Brazil. This type of concentration may be illustrated by taking the case of Brazil, a country for which there are a number of good studies on income distribution trends based on the aggregate data obtained from the general censuses of 1960 and 1970. No other country in this category offers such possibilities or represents such a paradigm of a style of development for other countries of the region.

The various existing studies appear to be mutually coherent, since their more general estimates are highly convergent. In the first place, as may be seen in table 1, all the sources indicate, with slight variations, that between 1960 and 1970 the trend in income distribution was towards a clear and considerable concentration at the top, at the expense of the poorer half of the population.

The differences in the estimates in table 1 stem from the analytical outlook and the methodology adopted to adjust the figures, since in every case the data are taken from the 1960 and 1970 censuses.

A broader comparison could be made by considering all the strata, suitably grouped as in table 2, and in addition calculating the rates of growth (or negative growth) of their income during the period.

In connexion with Langoni's estimate which appears in table 2, it should be pointed out that it has the most moderate findings of all on the concentrative trends in income observed in the decade. Other authors such as Hoffman and Duarte, who also use the general censuses for the estimates but with

Table 1
BRAZIL: INCOME DISTRIBUTION, 1960-1970^a

Estimates	Poorest 40%/o		Richest 50/o	
	1960	1970	1960	1970
- Fishlow	10.5	7.1	28.6	38.2
- Hoffman and Duarte	11.2	9.1	27.4	36.3
- Ministry of Finance	11.6	10.0	27.7	34.9

^aData taken from J. Serra, *A Reconcentração da Renda: Crítica a Algumas Interpretações*, in *Estudos CEBRAP-5*, July-September 1973, pp. 131 to 155. For the last estimate, see also C.G. Langoni, *Distribuição da Renda e Desenvolvimento Econômico do Brasil* (Rio de Janeiro, Expressão e Cultura, 1973, p. 64, table Nº 3.5) whose data coincide entirely. The same author makes a similar comparison for 1960 in table 3.3 (p. 62) and for 1970 in table 3.4 (p. 63).

Table 2
BRAZIL: COMPARATIVE INCOME DISTRIBUTION, 1960-1970

Economically active population	1960	1970	Relative increase 1960/1970	
			In points	In percentages
Poorest 50%/o	17.7	14.9	- 2.8	- 15.8
Next 30%/o	27.9	22.9	- 5.0	- 17.9
Next 10%/o	14.7	14.5	- 0.2	- 0.1
Richest 10%/o	39.7	47.8	+ 8.1	+ 20.4
Of which:				
(lower 50/o)	(12.0)	(12.9)	(+ 0.9)	(+ 7.5)
(upper 50/o)	(27.7)	(34.9)	(+ 7.2)	(+ 26.0)
(top 10/o)	(12.1)	(14.8)	(+ 2.7)	(+ 22.3)

Source: C.G. Langoni, *op.cit.*, table 3.5 (p. 64). The figures on the relative differences between the two years were prepared by us on the basis of his data.

somewhat different adjustments, give figures which accentuate the differences between the two extremes of the scale. They indicate, for example, that while the income share of the poorest 50 per cent of the population dropped from 18 to 14 per cent between 1960 and 1970, a 4-point loss, the richest 5 per cent increased their share from 27 to 36 per cent, a 9-point (or one-third) gain, and the share of the top 1 per cent grew still more, rising from 12 to 18 per cent (a gain of 50 per cent over their share in 1960).¹³

¹³“The income distribution apex (in 1970) composed of the 5 per cent of remunerated persons who receive 36 per cent of total income, i.e., 26.4 times the average income of the half of the population situated at the other end of the distribution scale. This 5 per cent is the permanent basis of the market for consumer durable goods, a limited base which has moulded many of the characteristics of the industrialization process in Brazil.” The average level of growth of the lower half of the population “remained unchanged in this period, despite a 79 per cent rise in the GDP. If it is considered that the percentage of income recipients dropped from 35.4 to 31.4 per cent of the population between the two censuses analysed, we deduce that the per capita income of this part of the population must have dropped in some way. In the following deciles average incomes had increments of little significance. The significant increases in income were reserved above all for the 5 per cent of the population with the highest incomes” . . . “Our conclusion is that half the population was not reached by the benefits of economic growth (at least in monetary terms) and that the following 30 per cent had only marginal access to those benefits”. See R. Hoffman and J.C. Duarte, “A Distribuição da Renda no Brasil”, in *Revista de Administração de Empresas*, Vol. 12, Nº 2, April-June 1972, pp. 44-66 (quotation from pp. 59 and 60). It is also interesting to note the following observations by Celso Furtado: “The ‘upper middle class’ to which we refer is composed in Brazil of the 5 per cent of the population with the highest standard of living; the average family income of this group was close to 1 000 dollars in 1970. The provisional

Even more interesting is an analysis of the relative and absolute differences in the income pyramid in the decade 1960-1970. First, the strata which lost ground most noticeably are quite clearly those around the centre of the scale. While the bottom decile lost relatively little (-5 per cent), the deciles immediately above had smaller shares up to the ninth decile; in contrast, the share of the tenth (top) decile rose markedly. From a more detailed study of the strata which lost in relative terms it appears that those whose position suffered most were the strata in the group ranging from the fifth to the seventh decile, which show a considerable average relative loss (-22 per cent) with a slow decline towards the two extremes. The share of the eighth decile also declined, as did that of the ninth to a small degree.¹⁴

data of the 1970 census lead us to believe that the purchasing power of this group grew almost three times as fast as that of the average of the population” (Celso Furtado, *Análise do Modelo Brasileiro*, Rio de Janeiro, Civilização Brasileira, 1972, p. 42, footnote 32.)

¹⁴One analyst describes these movements as “downward levelling”: “An analysis of the changes in the income distribution structure in Brazil between 1960 and 1970 clearly shows what has been called ‘downward levelling’: during that decade average income rose 36.9 per cent, the income of the richest 5 per cent grew by 75.4 per cent, that of the poorest 40 per cent rose by 18.3 per cent and that of the intermediate 20 per cent scarcely grew by 7.7 per cent. As it happens, it is this middle 20 per cent whose average income is closest to the minimum wage. This means that in a period of high development in Brazil, the strata with incomes below the minimum wage, many of them belonging to the sub-proletariat, improved their position somewhat more than the worst-paid strata of the urban proletariat. Thus the inequality between the poorest strata of the country and the city was reduced by a genuine downward levelling movement; while at the

Secondly, a detailed study of the top decile confirms the assumption that concentration is greatest at the apex of the pyramid. The position of the tenth decile improved by 20 per cent over the rest of the population, whose relative share decreased, but the top quintile's share grew still faster, accounting for most of the growth of the decile, because the penultimate quintile's position only improved slightly. The share of the 1 per cent of the population with the highest incomes, for its part, grew more than the average for the tenth decile, but less than the top quintile. Thus the data conclusively indicate that the majority of the growth of income in this period was concentrated in the upper layer of the top quintile of the distribution scale, i.e., some 4.5 to 5 million persons.¹⁵

Another feature of the estimates in the above tables should be pointed out. Since they are based on the census data, they only took into account the *remunerated* economically active population (i.e., income recipients), thus excluding the unemployed and those who had recently joined the labour force and were still without work. Since the size of this group changed considerably between 1960 and 1970, falling from 14.7 to 11.7 per cent, the rise in

same time the gap between them and the privileged minority grew wider". Paul Israel Singer, "Implicações econômicas e sociais da dinâmica populacional Brasileira", in *Estudos sobre a População Brasileira*, São Paulo, CEBRAP, Caderno Nº 20, p. 15.

¹⁵ It should be borne in mind, at the risk of appearing repetitious, that the above differences refer to changes in the relative positions of the strata *within* the income pyramid, i.e., to variations in the size of their shares in the distribution, which represent gains or losses over other strata, and *not* to the increases in the average incomes of the various income groups.

employment had a positive effect, particularly in the poorer strata, although without being able to avert the considerable contraction of wages.

Fishlow, who studied income distribution in a somewhat different fashion, also concluded that concentration at the apex was very high.¹⁶

Some preliminary conclusions can be drawn from these data. In the first place, it seems clear that the income increments tended to be concentrated in the top 5 per cent, which absorbed more than one-third of total income at the end of the period. Secondly, the concentration was greatest in the branches of production and social areas where

¹⁶ "Although regrettable, the conclusion that inequality increased in the course of the decade seems to be correct. The 3.2 per cent at the top of the labour force in 1970 obtained 33 per cent of total income whereas in 1960 they received only 27 per cent . . . It may validly be objected that the 1970 data are not fair evidence of the implications of rapid growth in the capitalist mould" because "since 1964 (a little over half the decade), there has been continuous military government, and only the latter part of the period is characterized by considerable material progress. It is reasonable to assume that responsibility for the rise in inequality must be attributed to stabilization rather than growth. Between 1964 and 1967, as a result of strictly holding down nominal salaries and achieving 'corrective inflation'—price adjustments fixed administratively by the Government—real minimum wages fell by 20 per cent, and subsequently they barely kept level". A. Fishlow, "Distribución del ingreso por tramos en Brasil", in A. Foxley (ed.) *Distribución del ingreso en América Latina*, Mexico City, Fondo de Cultura Económica, 1973, pp. 106 and 107. Unfortunately this author did not form regular strata but rather income layers, producing uneven groups of economically active population which are scarcely comparable with strata grouped by deciles, quintiles, etc. This complicates any attempt at strict comparison with the other authors considered.

technological modernization and economic dynamism were strongest.¹⁷

Thirdly, the fact that the poorest categories in the distribution did not decline as much as the groups in the middle of the scale was due to various factors, particularly the policies designed to increase employment, social security and social services, with a view to eliminating "absolute poverty".¹⁸ Moreover, their closeness to the subsistence levels has made it almost impossible to push the incomes of these groups down, and this partly explains their resistance to further deterioration.

¹⁷ This conclusion is confirmed by the data relating to distribution by sector and income area, which show how income was concentrated more in the urban sector than in primary production. These disaggregated data show still more bluntly that in the *urban sector* the base of the pyramid (bottom 10 per cent) grew both relatively and absolutely while all the central part dropped very sharply, up to the eighth decile; in the ninth decile there was a slight reversal of the trend. There was very pronounced growth in the tenth decile, which in 1970 received 45 per cent of income. Once again the peak is in the top 5 per cent, whose share rose from 27 per cent in 1960 to 34 per cent in 1970. In the primary sector, this layer receives a smaller share and grows even less: in 1960 its share was 23 per cent against 27 per cent in 1970. The variation in this sector is only 16 per cent, as apposed to an improvement of 26 per cent in the urban sector. Cf. C.G. Langoni, *op. cit.*, tables 3.7 and 3.8, pp. 68 and 70.

¹⁸ "There also seems to be little doubt that one of the immediate consequences of the higher rate of growth is the drop in the level of poverty... because of the high level of employment". These arguments are put forward by C.G. Langoni, *op. cit.*, p. 214. The effect of the expansion and improvement of employment on income distribution has been stressed by an ex-minister, A. Delfim Netto, in his preface to Langoni's book. Fishlow has questioned the point that the greater inequality was due to the rapid growth of the economy. Contrary to what Langoni maintains, he argues

Fourthly, it has also been argued that the great expansion of education in this period helped to increase employment opportunities in an economy undergoing a process of rapid technological modernization.

Finally, the trend appears to have been one of concentration of income in the form of profits from capital and property rather than wages and salaries. This was more accentuated in the modern sector, where the advantages of productivity have had little effect on average wage levels, which have fallen behind and failed to share fully in the benefits of technical progress. Thus average real wages have lost ground, despite the considerable progress brought about by the technological modernization of the Brazilian economy.¹⁹ This observation is not affected by the fact that in the same period nominal wages underwent a very marked hierarchization and diversification.

that inequality became greater in the recession period (1964-1967) and was therefore not the result of the upheaval caused by the rapid growth in the following period. Thus it was the slow growth during the period of the stabilization policies which was associated with the most regressive effects, since it particularly affected real wages and salaries. Cf. A. Fishlow, "Distribuição da Renda no Brasil: Um Novo Exame", *Dados*, Nº 11, 1973, pp. 23 and 28. This same work also contains the study by C.G. Langoni, "Distribuição da Renda no Brasil: Resumo da Evidencia", where he argues with Fishlow about the interpretation of the Brazilian economic process.

¹⁹ Hoffman and Duarte, *op. cit.*, give some figures which confirm this. For example, in São Paulo between 1961 and 1970 there was a steady drop in real wages amounting to 30 per cent (page 61). The table below shows how real wages in Brazilian industry, primarily manual workers' wages, fell behind in comparison with the rise in productivity, which would confirm that the relative share of capital profits improved.

Hoffman, seeking to interpret this concentrative process, asks "Why was there a rise in the degree of concentration of income in Brazil in the 1960-1970 decade, primarily in the secondary and tertiary sectors? The explanation of the process must lie in the Brazilian model of development". There can be no doubt, for the time being, that various aspects of government economic policy are directly linked with the rise in concentration: (a) "the value of the real minimum wage fell sharply during the period"; (b) "there was a decline in the negotiating power of the workers", who "were the object of frequent intervention" on the part of the State; and (c) the changes in the "system

of compensation for unfair dismissal and of job security", made it easier for entrepreneurs to rotate staff without carrying out the wage readjustments or paying the extra remuneration for length of service. This "compression of wages" reduced the amount of resources needed to pay the less skilled workers and thus made possible a more hierarchical wage structure, with a great improvement in wages in the middle and upper levels and a relative drop in the wages of the unskilled workers. There have been various interpretations of this process of wage differentiation, as is shown, for example, by the disagreement between Langoni and Fishlow on the role of education in the dynamics of income

**INDICES OF WAGES AND PRODUCTIVITY IN BRAZILIAN
INDUSTRY BETWEEN 1955 AND 1966**

(1955 = 100)

Year	Wage-earners in general			Manual workers only		
	Real wages	Productivity	Wage productivity ratio	Real wages	Productivity	Wage productivity ratio
1956	107	107	1.0	108	107	1.0
1958	114	130		113	132	
1962	120	164		112	173	
1964	132	172		129	175	
1966	121	172	0.70	119	178	0.67

Source: Instituto de Pesquisa Econômico-social Aplicada (IPEA), *A industrialização brasileira: diagnóstico e perspectivas*, Rio de Janeiro, 1969, p. 46.

Commenting on these and other data, the authors conclude as follows on the problem of wages: "The labour market situation has enabled the wages paid by the dynamic and the traditional industries to be brought level or at least has ensured that the wage difference between them is not very great (this is also visible in the service sector). In these conditions, given the differences in productivity, it may be assumed that the sectors which benefited most in the twin process of growth and concentration of income are precisely those which contain the 'more modern activities' ". (P. 61.)

L.C. Bresser Pereira, "El nuevo modelo brasileño de desarrollo", in *Desarrollo Económico* (Buenos Aires, vol. 14, Nº 55, October-December 1974, pp. 575 *et seq.*) provides further information on the deterioration of real wages, and particularly the minimum wage, during this period.

distribution. In this connexion Hoffman observes that differences in levels of education "explain" only part of the difference, and that in any case the education variable is used in the Langoni model as a residual variable, like a sort of "rag-bag", since "the absence of variables such as wealth and social status of the family, which are in fact positively correlated with the educational level, leads to an overestimation of the influence of this variable". It was "the Government's wage policy" which "really helped to keep down the wages of illiterate workers or those with only primary education and by lightening the payrolls of the enterprises made possible an increase in the salaries of the upper-level and management employees" who are certainly better educated. "Since 'political' variables do not enter into the Langoni model, much of government action is 'explained' by means of the education variable".²⁰

²⁰ R. Hoffman, "Consideraciones sobre la evolución reciente de la distribución de la renta en Brasil", *Nueva sociedad*, N° 16, January/February 1975, pp. 18-19. Again from the standpoint of the analysis of the Brazilian Government's role in income concentration, Fishlow has stated that "from 1967 government policy had an adverse effect on wages inasmuch as real salaries rose less than the productivity of labour". He goes on to say that "government policies created a situation in which the persons at the very top of the distribution could gain in comparison with those below, and since the top group was well educated the income differential according to educational qualification increased". Thus education became a concomitant, but was not the cause, of the differences in income, which Fishlow attributes instead to government policies and the concentration of wealth, the latter being of fundamental importance in the creation and persistence of income inequality in Brazil. "There is a serious danger that the problem of inequality may be viewed as a transitory phenomenon, to be remedied by

There has certainly been more divergence as regards the appraisal of the changes in the distributive pyramid in the period 1960-1970 than with regard to the situation reflected by the statistical data used by the analysts. It is not for us to join in this highly prolific polemic. To conclude our consideration of the Brazilian case, perhaps the best course is to draw up a balance-sheet of the positions and indicate the points on which the controversy seems to have raged most fiercely. Langoni, who has set himself up as defender of the process, has started from the assumption that the rapid growth of production generates disruptive effects in the flows of income and tends to concentrate them temporarily, until corrective factors enter into play. There are basically two such factors: the first is the rise in employment, particularly in the modern sector, as mentioned above; the second, more indirect, is the growth of education, to which he attributes considerable corrective power inasmuch as it helps to equalize opportunities.

All of these points have been disputed. However, it could perhaps be said that a common theme of central importance for the present study emerges from this debate: namely the government's social and economic policies. While they have been evaluated in different ways, there is general agreement on their influence in the differential distribution of income. We shall return below to the problem of the relationship between the political régime

growth and some modest reforms alone, and not as the heritage of the past accumulation of wealth and capital. . . . Inequality should not be diagnosed in such a way as to exclude from the outset the factor which is possibly strongest: the redistribution of physical assets". Cf. A. Fishlow, *ibid.*, pp. 29 and 45.

and the State and its effect on shaping income concentration patterns.²¹

Unfortunately, income distribution statistics are incomplete in most countries and only relatively reliable conclusions can be drawn from them on the distributive situation and income concentration in specific years. With these reservations, some other Latin American countries may be singled out to illustrate further the elitist type of concentration: El Salvador (around

1965), Guatemala (1965), Peru (until 1968) and Chile (since 1973).²²

The mesocratic type of concentration

The cases which could be taken into consideration to illustrate this type of concentration correspond to a number of countries which, in various phases of their recent development, present distribution situations with definitely mesocratic features. The examples could include Chile under Frei and Argentina in the post-peronist period between 1955 and 1963. Other countries such as Uruguay (1968) also have distribution structures which follow the same pattern.²³ The available information is

²¹ Many studies have been made of the so-called "Brazilian political model", which began with the political régime installed in 1964 but acquired its definitive form more recently in 1968. These do not always agree, either because of the approach adopted or due to the influence of their value judgements on the choice and interpretation of facts. A summary and reasonably objective description was made recently by Fernando Henrique Cardoso in the following terms: "the Brazilian political model... did not cease to have an objective basis and to be useful to the ends of the triumphant political groups. The prevailing authoritarianism enabled the State apparatus to be reorganized, abolished the previous party system (and thereby the political representation of the popular classes and urban workers and also of large sectors of the former dominant classes) and brought into the political process, on new terms, the armed forces and the social groups representing the monopolistic sectors of the economy. These changes helped to shape the "economic miracle" in the form in which it occurred: *with income concentration and social inequality*. In addition, the economic intervention of the State and foreign investment could more easily be combined in the authoritarian climate which prevailed following the dismantling of the former political order... In sum, the leading sector of this power bloc is recruited from the armed forces and depends on them as a corporation, while receiving firm support from the technocratic sectors". F.H. Cardoso, *Autoritarismo e Democratização*, Rio de Janeiro, Paz e Terra, 1975, pages 225-226. (Underlining added.)

²² The data on Peru and Chile, while still fragmentary, are considerably more complete than the data on the first two countries. On Peru see, in particular, Richard Webb and Adolfo Figueroa, *La distribución del ingreso en el Perú*, Instituto de Estudios Peruanos, Lima, 1975, *passim*. As for Chile, the following studies may be mentioned, among others: Michael Chossudovsky, "Hacia el nuevo modelo económico chileno. Inflación y redistribución del ingreso", *El trimestre económico*, Nº 166, April-June 1975, pp. 311 to 347; Ricardo Lagos and Oscar A. Rufatt, "Military government and real wages in Chile: A Note", *Latin American Research Review*, Vol. 10, Nº 2, Summer 1975, pp. 139 to 146.

²³ See CEPAL, *Income distribution in Latin America*, United Nations publication, Sales Nº S.71.II.G.2, New York, 1972. This is the most thorough of the many studies on the topic, and it shows interesting swings in distribution which are related to changes in the political situation. See also CEPAL, *Economic development and income distribution in Argentina*, United Nations publication, Sales Nº S.68.II.G.6, New York, 1968. For more recent and up-to-date information, see the publications of the *Proyecto sobre medición y análisis de la distribución del ingreso en países de América Latina*, CEPAL/IBRD, Santiago, 1974/1975, mimeo.

incomplete, only relatively reliable and often barely comparable. With these limitations, perhaps no other known examples approach closer to the mesocratic type of concentration than the cases of Venezuela, Mexico and Costa Rica in recent decades, countries for which recent information is available.

These three countries are the cases which will be analysed below on the basis of published data and well-known studies both by CEPAL and obtained from other sources. In any event, it may be recalled that—as in the case of Brazil—the empirical analysis of the specific form of income distribution in these countries is above all a qualitative matter, primarily designed to illustrate an analytical model. In other words, our aim is to shed light on the problems raised above in connexion with the dynamics of income concentration in the process of Latin American capitalist growth and the forms it has taken in national political settings and specific historical situations. This methodological and substantive goal means that the presentation and study of the cases must necessarily be sketchy, indicating only those aspects of the situation which are considered of prime analytical importance in the model. What is of interest here is to stress the presence and influence of a number of non-economic factors in shaping a mesocratic type of concentration.

The case of Venezuela. What is known about the Venezuelan experience is interesting in many ways because it shows how the mesocratic type of income concentration, currently prevalent in Venezuela as well as in other countries of Latin America, is constituted and how it works. The CEPAL

general study²⁴ mentions various historical and structural factors which have played a considerable part in shaping income distribution in that country: (a) a rapid, sustained growth rate over a long period; (b) a small “primitive” sector which only influences the lower and intermediate levels of distribution; (c) a rapidly-growing “modern sector” in which most of domestic income is concentrated, spearheaded by (d) a petroleum enclave largely under external control, which pays high wages and salaries and high prices for national inputs, thus raising wage levels in the domestic sectors; (e) this redistributive effect of the transfer of income from the petroleum enclave creates domestic demand, which gives rise to a sophisticated market supplied in the first place through imports and subsequently through technologically-advanced substitutive industrialization also paying high salaries as well as fat dividends to its owners; and finally (f) a State whose appropriation of income generated by petroleum increased considerably during the period, and which reallocates this income as investment in infrastructural and public works, education and social policies which contribute to the accelerated growth of a new techno-bureaucracy and a rapidly-growing public productive sector. The State has acquired a central, strategic position in the Venezuelan economy and its importance is steadily increasing.

The above-mentioned study points out that the crisis of the thirties harmed the traditional privileged minorities whose position was primarily based on

²⁴ CEPAL, *Income distribution in Latin America, op. cit.*, pp. 52 to 61. The data are mostly taken from a study carried out in 1962, supplemented by estimates for 1960-1970 and earlier years.

the growing and exporting of cocoa and coffee. Their incomes declined because of the sharp drop in international prices, while petroleum prices were climbing and thus strengthening the leading position of the petroleum sector in the country's economy.

These events changed the traditional Venezuelan structure and led to a distribution of income with the following features: first, "the poorer half of the population receives a smaller proportion of total income than in any other country of the region" (p. 52). The lower levels obtained relatively lower incomes: the poorest 20 per cent receives scarcely 3 per cent of total income (as against 7 per cent in Argentina), although in absolute terms their incomes are a little higher than the regional average, and "these groups have been almost untouched by the rapid growth of recent years" (p. 54). The coefficients of inequality in Venezuela are very high but, in contrast with the rest of the region, this is caused more by inequality throughout the distribution than by the concentration of income at the very top of the scale (p. 52).

Secondly, in the intermediate levels income rises much more rapidly than in most Latin American countries. This rise becomes very steep in the 7th, 8th and 9th deciles of the scale. On the other hand, the rise at the top level is lower, as may be seen particularly in the 5 per cent at the very top of the distribution, whose share has declined relatively. It should be noted that the share of salaries in this top 5 per cent is the highest in the region (p. 60). Thus the weight of property in income concentration is considerably lower than in the countries belonging to the elitist type.

Thirdly, income tends to be concentrated in the top half but not the very top 5 per cent. "The groups which have

benefited most from the special form of development of the Venezuelan economy are those in the top half of the distribution but below the very top of the scale . . . Both the 30 per cent above the median and the following 15 per cent receive a larger share of total personal income than in any other country of the region . . . but at the very top of the scale (10th decile), the inequality is less extreme than elsewhere in the region" (p. 56).

To sum up, then, in this type of distribution concentration occurs in the higher groups but below the top of the scale, at the expense of the relative position of the top 5 per cent and of the lower half of the distribution, which becomes relatively poorer. Recent trends in income distribution have tended to strengthen this type of distribution, although there is also a complementary trend towards a higher share for other middle groups below those in which income has been most concentrated in recent years. The concentration is tending to spread downwards, but slowly.

The explanation of this pattern is very tentative and sketchy. The big foreign enterprises have lucrative advantages in petroleum which have enabled them to pay higher salaries "to avoid either a political or an economic threat to their position" (p. 57). However, there has been constant political and economic pressure on them from the State and other circles, thus causing a considerable transfer of income towards the domestic sector which has led to the strengthening of the State and the diversification of the national economy. This interplay with the foreign petroleum companies has fostered the emergence of strong political leadership in the hands of a powerful State, a nationalistic ideology and an active and energetic

political class capable of articulating group interests and promoting their economic demands on the foreign enclave. It has also led to a "political market" which is relatively open and dynamic, where the various social forces take shape and demands are fought out, legitimated by "broader", but by no means full political participation.²⁵ The political class and electoral consultation are thus of fundamental importance in the formulation of policies and the definition of the style of development.

All this is true of contemporary Venezuelan society which, contrary to the prevailing trends in Latin America, has been able not only to preserve but also to develop a civil and democratic political style with increasing participation, undoubtedly favoured by the dynamism of its flourishing external sector. Fundamental in this evolution has been the fact that the social sectors and groups which have gained power have been able to express themselves and have their way, thus creating a peculiar distribution structure in which their demands are clearly reflected in the type of income concentration. This is a typical *mesocratic* concentration of income, which expresses the predominance of a power structure in which the presence of a political class, a coalition of urban and rural, civil and military middle sectors (bureaucrats, professionals, entrepreneurs, intermediaries, etc.) nuclei of organized urban workers, and the mobilization of broader sectors of the population have helped to create a pluralistic and stable political régime which enjoys reasonable legitimacy. All this gives it a foundation of consensus

²⁵ These terms are used in the acceptance given them by G. Germani, *Política y sociedad en una época de transición*, Buenos Aires, Paidós, 1962, Chapter V, pp. 147 to 162.

which is unusual in the present Latin American political setting.

The case of Mexico. The structure and trends of income distribution in Mexico present striking similarities with Venezuela.²⁶ Both countries are good illustrations of the mesocratic type of concentration. Mexico also has the advantage of possessing data and studies on income distribution going back to 1950. Table 3 shows the structure and evolution of the distribution from that year.

A rapid survey of the preceding table and of other data in the above-mentioned study²⁷ permits a number of important conclusions. First, the relative position of the lower half of the distribution declines throughout the period. This drop is particularly sharp in the case of the poorest 20 per cent, whose share grows at a rate three and a half times below the national average (1.2 per cent in comparison with 4.1 per cent).

²⁶ The similarity is explicitly recognized in CEPAL, *Income distribution in Latin America*, *op. cit.*: "The distribution of income in Mexico is basically quite similar to that just described for Venezuela. Minimum incomes are again low and the poorer half of the population receives a very small proportion of total income. There is also the considerable inequality throughout the distribution . . . the rise at the very top is again relatively smaller and although the top 5 per cent receives a considerably larger share of the total than was the case in Venezuela, the share is still smaller than elsewhere in the region and the inequality is due less to the concentration at the very top of the scale. The similarity between the income distribution of the two countries can be readily seen. In the various ways of viewing the distribution, the values calculated for Mexico and for Venezuela consistently fall close to each other on the scale" (p. 61).

²⁷ CEPAL, *Income distribution in Latin America*, *op. cit.*

Table 3
MEXICO: INCOME DISTRIBUTION BY STRATA FROM 1950

	1950	1958	1963	1970	Rate of growth 1950- 1963
Income strata					
Lowest 20 per cent	6.1	5.0	4.2	3.7	1.2
Next 20 per cent	8.2	7.1	6.9	7.9	2.7
Middle 30 per cent	17.3	16.4	16.3	20.0	3.6
Upper middle 20 per cent	19.4	22.2	22.7	27.1	5.3
Top 10 per cent	49.0	49.3	49.9	41.3	4.2
of which:					
(lower 5 per cent)	(8.9)	(10.7)	(11.6)	(12.3)	(6.2)
(upper 5 per cent)	(40.2)	(38.6)	(38.3)	(29.0)	(3.7)
Rate of growth of per capita national income 1950-1963					4.1

Sources: For the series 1950-1963 the data were taken from the study by Ifigenia M. de Navarrete, "La distribución del ingreso en México: tendencias y perspectivas", in Víctor L. Urquidi *et. al.*, *El perfil de México en 1980*, Mexico City, Siglo XXI, 1970, vol. I, table 2, p. 37. The data for 1970 are taken from unpublished CEPAL estimates and are included as more recent illustrations, although they are not strictly comparable with the data for the earlier years on methodological grounds; with these limitations, they clearly confirm the trends already noted.

Secondly, the lower intermediate stratum, which includes up to the 30 per cent above the median, retains its share of total income and grows at a rate equivalent to the national average. In other words, it maintains its relative position.

Third, the share of the upper middle stratum formed by the 15 per cent below the top 5 per cent grows at a much higher rate than the overall average. It is in this group that there is the greatest concentration of increases in income during the period.

Fourth, the top 5 per cent clearly loses ground, dropping from 40 per cent

to 29 per cent between 1950 and 1970. This decline contrasts sharply with the rise which occurs in the 5 per cent immediately below, whose share of income rises from 9 per cent to 12 per cent (i.e., by one-third).²⁸

Finally, a glance at the overall trend shows that the share of the upper middle strata increases at the expense of the two extremes of the distribution, the poorest and the richest, thus clearly illustrating

²⁸ Thus, the position and trends of the top strata and, also, in general, the lower half, are the opposite of what has been noted above in the case of Brazil.

what we have called in this study the mesocratic model.²⁹

The same CEPAL study goes on to note that "the share of the top income group... varies with the social and institutional structure in any particular country".³⁰

In an earlier CEPAL study³¹ there is a review of the factors and processes which helped to shape the present profile of the distribution of income in Mexico. The study notes that in the 1940s the changes led to greater inequality in the distribution of income and a widening of the gap between the different socioeconomic categories of the population: the average incomes of entrepreneurs rose more than the average increments of wage-earners and export agriculture grew, while the situation of the wage-earners and small rural producers deteriorated in absolute and relative terms (p. 202). Industrialization gained strength in the 1950s and came to the forefront of economic growth. The overriding feature in more recent years has been the strengthening of *public action* as a factor influencing the characteristics of the distribution (p. 203).

The present profile of the distribution is characterized by a number of features and processes. First, the internal structural differences, the differences among wage and salary earners

(according to the sector, specialization and degree of modernization of the productive unit) and those among entrepreneurs (small and large, traditional and modern producers, etc.) have widened.

Second, the State has been implementing industrial promotion policies which favour large-scale enterprises at the expense of other sectors, particularly small family agricultural concerns.

Third, the gaps between salary levels have been widening, particularly between 1940 and 1950—a process heavily influenced by government price- and wage-fixing policies, which consolidated the relative deterioration of salaries and their greater internal stratification.

Fourth, growth was rapid and sustained throughout the period, but in the initial phase it was accompanied by continuous inflation and big sectoral differences in growth-rates, partly caused by the great contrasts within the process of technological modernization.

Fifth, in this situation a "worker aristocracy" has emerged, in the form of the highly-paid employees of the modern, high-productivity enterprises, who are unionized and linked to the State's political apparatus. There is also a stratum of executives, technical experts and professionals with close ties with the more dynamic productive sectors and the State administration.³²

²⁹ "Growth has benefited primarily those in the upper part of the distribution but below the top; and both those at the very top and those at the bottom have seen their share of total income decline in the process". (CEPAL, *Income distribution in Latin America, op. cit.*, p. 64.)

³⁰ *Ibid.*, p. 64.

³¹ CEPAL, *Estudios sobre la distribución del ingreso en América Latina, op. cit.*

³² An interesting and illustrative study about the formation of the social awareness of a group of supervisors and semi-skilled workers in the process of becoming conspicuous members of a "worker aristocracy" may be found in J.A. Kahl, "Tres tipos de trabajadores industriales mexicanos", in J.A. Kahl (ed.), *La industrialización en América Latina*, Mexico City, Fondo de Cultura Económica, 1965, pp. 217 to 224.

Sixth, towards the end of the period (particularly in the 1960s) the Government has followed redistributive policies which expanded education, health, social security, housing and other services. These services also represent new job opportunities for the bureaucratic, technical and professional middle sectors. The effects of these policies in the poorer sectors appear to have been very limited.³³

The original pattern of income distribution was conditioned by various processes. In the first place there was the "Mexican revolution", which radically changed the agricultural social structure and, in particular, the régime of land tenure and the concentration of land in *latifundios*. The agricultural oligarchy was practically destroyed, and along with it its economic power and the traditional class structure of which it had been the main component and prop.

³³ "It is striking that all these efforts (the social services policies) have not come to be adequately reflected in any improvement of income distribution by levels, which, as we have seen, was limited to the intermediate groups and did not extend to the lower income strata... This suggests in part that the redistribution policy was more efficient with respect to the wage-earners whose income concentration was (previously) greater, and who were better organized and primarily urban, than in the sectors made up of the lower strata of the distribution, primarily wage-earners in agriculture and specific services", as well as independent producers, more than half of whom (53 per cent) are in the lower half of the distribution. Cf. CEPAL *Estudios...*, *op. cit.*, pp. 227-228. (Underlining added). On this problem, see also the well-known study by Pablo González Casanova, "Sociedad Plural y Desarrollo: el caso de México", in J.A. Kahl, *op. cit.*, pp. 262-273; and also his book *La democracia en México*, Mexico City, ERA, 1965, Chaps. V and VI.

Second, no less important was the process of institutionalization and the shaping of a political régime centered on a government party which seems to have become one with the State, as it has a great capacity to articulate and represent very varied and often contradictory interests.

Third, although the nationalization of the petroleum industry during the *Cardenista* period was an important step in the development of the Mexican revolution, more recently foreign investment and transnational corporations have acquired increasing weight in activities ranging from some key industrial sectors (motor vehicles) to important services like hotel-keeping and tourism. In addition, commercial and financial links with the United States are very close.

Finally, the State has played a central role in all this process; its action has had a decisive effect on the present shape of the Mexican economy and, above all, on the preponderance of certain groups within it. A new sector of entrepreneurs and industrial executives (national and foreign), a large technobureaucracy and a stratum of high-income technical experts and professionals, allied with the union leaders of the urban workers in the modern sector and of the agricultural workers, together with other middle sectors in trade and services, have managed to consolidate a stable political régime through an institutionalized alliance in a political apparatus (the PRI), which represents a relatively broad social base articulated with an influential political class.³⁴

³⁴ The specific profile of income concentration in Mexico has caught the attention of analysts of Mexican economic development and politics. One author who has reviewed much of the extensive literature on the subject reaches

The case of Costa Rica. Costa Rica offers some interesting variants of the mesocratic type of concentration. Table 4 shows the changes in income distribution by strata in the course of a decade.

The utmost caution must be observed in interpreting these data because of the variety of sources from which they are taken – whose compatibility is not examined in the study in question – and also because of the aggregation in the centre where very diverse and heterogeneous income strata are grouped together. All the same, a clear trend may be seen

the following conclusions: “In the last 30 years, a large part of the bill for rapid industrialization has been paid by large reductions in the consumption of the great majority of Mexican society situated at the very bottom of the income scale. Between 1940 and the early 1970s, the rich in Mexico have become richer and the poor poorer... Two generalizations may be made about the course of economic development in Mexico. The first is that no other Latin American political system has provided greater rewards to its new industrial and agro-business elite” or done “so little directly on behalf of the poorest quarter of its population...”. “What seems to have occurred in Mexico after 1940 is that one particular social group, a new agricultural-industrial elite, has been permanently favoured by government policy”... However, “the Mexican development strategy to date has triumphed because the socio-political development of the country has favoured rather than obstructed government policy and the private sector’s response in the interests of higher growth. On various occasions, other Latin American countries have adopted similar policies; however, in general these policies have been the victims of social and political pressures which, in Mexico, have been better contained”. The author points out that “in recent years there has been a clear drop in the concentration of income in the top 5 per cent of Mexican families” and that those benefited by development are the groups immediately below; “thus the present political system has averted an increasing concentration of political power in the hands of a few unchanging individuals... (and this reveals) the

towards concentration beneath the very top of the scale. In addition, the study on which table 4 is based indicates that concentration is greater in the capital and lower in the rural zones, and these differences have been growing bigger. In the national development plan of Costa Rica³⁵ these income variations are attributed to the increasing complexity of the economic system. “In the *high* strata there is greater diversification” at the same time as “a consolidation of their social position by the concentration of wealth in the rural and urban sectors” which has increased in recent years. The middle strata have grown and improved their share of income because of “the existence of strong associations promoting and defending their demands”. “The situation is very different for the lower strata. Clearly, some have improved their position inasmuch as they have managed to become incorporated in the dynamic sectors of the economy, but it is also true that a considerable portion continues to have

rotating nature of the elite within the political system, and shows that there is a trend towards less income concentration in the highest income groups”. In other words, he asserts that it is the style of Mexican politics, notwithstanding the concentrative trends it engenders, which has been successful in avoiding the oligarchization that would have occurred if political power had been frozen due to a lack of adequate rotation of its elites, and if income had been concentrated in the very top group, thus strengthening its position in the prevailing structure of domination. This certainly did not happen, and it is precisely in this fact that one may perhaps find much of the explanation for the unusual political stability achieved by Mexican society over the last 40 years. (Roger D. Hansen, *La política del desarrollo mexicano*, Mexico City, Siglo XXI, 1974, pp. 96, 97, 117, 119, 134 and 236.)

³⁵ Annex III, 1974, p. 6.

Table 4
COSTA RICA: VARIATIONS IN INCOME DISTRIBUTION

<i>Income strata</i>	1961	1971
Bottom 20 per cent (1st and 2nd decile)	6.0	5.4
Intermediate 60 per cent (3rd to 8th decile)	34.0	44.0
10 per cent below the top decile (9th decile)	14.0	16.2
Top 10 per cent (10th decile)	46.0	34.4
(Top 5 per cent)	(35.0)	(22.8)

Source: V.H. Céspedes S., *Costa Rica: La distribución del ingreso y el consumo de algunos alimentos*, Serie de Economía y Estadística, Nº 45, Universidad de Costa Rica, San José, 1973, table 13, p. 58.

an unsatisfactory standard of living", and that "unemployment and under-employment continue to run at high levels, and a quarter of the total population receive clearly inadequate incomes". Elsewhere in the same study,³⁶ after repeating that "the position of the elite in the economic power structure has been strengthened", emphasis is laid on the high growth of the dependent middle strata, both private and public, due to the fact that "their high organizational level and lobbying capacity in the political system have enabled these strata to absorb a considerable proportion of the national income."³⁷

³⁶ *Plan Nacional de Desarrollo, op. cit.*, Annex I, "El cierre de la brecha social", pp. 22 to 24. This annex was prepared by A. Gurrieri and P. Sainz.

³⁷ After the present study had been completed, we came across the excellent work by A. Figueroa and R. Weisskoff, "Visión de las pirámides sociales: Distribución del ingreso en América Latina", *Ensayos ECIEL*, Nº 1, November 1974. The authors made a diagnosis of the situation which coincides with our own.

In the first place, they identified "two patterns of trends. The first reflects a gain by the richest 5 or 10 per cent and a relative loss by the poorer 90 per cent... The formation of 'bourgeois society' is reflected in the second model, in which the bottom 60 per cent and the top 5 per cent give up some of their share of the income in the process of the growth of the 'middle class'..." Their examples include Brazil in the first case, and in the second, Mexico. They go on to observe that the prevailing style of development is not a redistributive force for greater overall equity, but on the contrary "whatever the pattern of 'redistribution' during the growth process, one thing is clear from these empirical results: development entails a decline in the relative share of the bottom 60 per cent", i.e., the poorest strata. "In the case of Peru, estimates have been made on the basis of trends in the real income of the different social groups in the period 1950-1966. The result is that those employed in the modern sector, which constitutes the richest quartile, increase their real income more than the other groups... After 1968, when the present military government began a series of reforms, the trend has been towards a transfer of income from the richest 1 per cent to the rest of the top quartile." In any event, they confirm the earlier assertion about the pauperization caused by growth. "... The five countries examined show that in every case the poorest 60 per cent suffered relative losses in their share of national income" (pp. 90, 91 and 112).

4.

Types of income concentration and political régime

Economic explanations, even in a historical perspective, provide a good starting point when attempting to describe the specific features and general stability of the structure of income distribution within an economic and social system which, like the capitalist one, imprints a very clear pattern on it.³⁸ The private appropriation of the means of production, the concentration of ownership and the régime of remunerated work constitute solid structural bases on which a variety of possible income-distribution pyramids may rest. These bases form a relatively broad framework which can accommodate different distributive patterns. However, the specific form of income distribution will be closely linked to the dynamics of power, or the social forces which control the State and thus the styles of development which the State promotes.

We have already seen that authors like Kuznets and Lewis have indicated that according to the experience of the

³⁸ There is certainly much evidence to show that in conditions of hegemonic stability (in other words, in the absence of social revolutions) the basic structure of the capitalist distribution of income in the long term possesses very great continuity. Titmuss showed this in the case of England. Cf. R. Titmuss, *Income Distribution and Social Change*, Allen & Unwin, 1962. More recently, a somewhat similar assertion has been made in the case of Colombia: "In general terms, it may be said that income distribution did not change significantly between the 1930s and the 1960s", M. Urrutia, "Distribución del ingreso en Colombia", *Revista Internacional del Trabajo*, Vol. 93, N^o 2, March-April 1976, p. 232.

original industrialized countries the concentration of income inherent in capitalist development necessarily occurred at the very top of the scale because that was where savings and, complementarily, investment were greatest.³⁹ Thus only this top group converts income into productive wealth, in proportions which are large but difficult to estimate exactly.⁴⁰

This is the essential mechanism of classic capitalist accumulation during the take-off stage, at the beginning of the industrialization and technological modernization of the economy. On the basis of this argument, "premature redistributionism" has been roundly rejected as contrary to the logic of capitalist development, since any expansion of the distributive base would destroy the essential dynamic elements of the system and the economy would be condemned to incurable stagnation. Hence the spurning of the "populist" solutions which are considered to be redistributionist in substance since they work against the private accumulation of capital.

³⁹ C.G. Langoni forcefully reasserted this argument not long ago: "One of our central arguments is that the acceleration of growth inevitably leads to a higher degree of concentration" (*op. cit.*, p. 214).

⁴⁰ Cf. S. Kuznets, who argues that in the United States the top decile accounts for practically *all personal* savings, and the top 5 per cent for over two thirds of the total (*op. cit.*, p. 7).

Nevertheless, the studies of income distribution in the majority of Latin American countries show that the growing concentration at the very top is not inevitable, and that some countries have achieved long periods of rapid economic growth in conditions where the rise in income is concentrated in the groups immediately below the very top, so that the benefits of growth are thus more widely spread. This makes possible a broader consensus which can hold together and facilitate the working of a more democratic political style, although it is still nothing more than a "limited participation" version of democracy.

This type of capitalist concentration, which we have called mesocratic, does not necessarily come after elitist concentration as the next stage in a "natural" process, as appears to have happened in the highly industrialized capitalist countries.⁴¹

On the contrary, in Latin America two types of income concentration coexist in countries which are in relatively similar stages of modernization of their productive forces, although their political styles differ considerably. What is more, it may be seen that both types of concentration may occur in a single country at different times, without considerable qualitative changes having occurred in the economic structure.

As illustrations, one may mention Brazil before and after 1964, Chile over the last decade and Uruguay at various

stages over the last 20 years. Thus the difference lies in the pattern and dynamics of the political régime, which is the factor that "explains" the transition from one type of income concentration to another. Of course, the changes in the distribution which have occurred in these countries, like those which have applied in other countries which, like Mexico and Venezuela, have more stable structures of mesocratic concentration, have not been the mere consequence of conjunctural variations or intersectoral changes in economic production, nor still less of inescapable historical trends in the technological modernization and organization of the economy.

These changes in the pattern of income distribution are essentially political in nature. Whether one is describing, for example, the rise or fall of a populist régime, or the formation of new alliances of social forces, the problem directly concerns the political régime. This is so because in the new circumstances there tends to be a profound change in the real functions of the State and the orientation of public policies in respect of development, which may perhaps lead to a new style of development accompanied by different forms of income concentration.

The correlation between the political régime and the profile of income concentration is certainly very close. The elitist and mesocratic types of concentration coexist with political régimes which are specific to them and may largely be explained through them. In general, the forms of concentration are closely linked to the degree of modernization of the economy, the organization of civil society, the levels and forms of political participation, and the influence of certain groups over State action, as well as the structure assumed by the State

⁴¹ The experience of these countries should be viewed with interest but with caution. In relation to these problems, historical extrapolations have been shown to be often misleading and false, since they have been based on factors and conditions which are supposedly constant but are not so in fact. The "ceteris paribus" fallacy is often difficult to avoid and customarily leads to mistaken conclusions.

within this framework. Income concentration depends, in the last analysis, on the political capacity of the "managing minorities" to "oblige the majority of the population to accept increasing social inequality".⁴² In other words, on the degrees of authoritarianism and negotiation which coexist in the political régime.

The first thing to be said of the *elitist type* concerns its links with economic and social modernization. Two subtypes should be distinguished, according to the degree of modernization of the society. The first could be called *traditional elitist*. Here, the income concentration is due above all to the accumulation of ownership—primarily rural latifundia type of ownership of land or mines—in an economy where the primary sector remains in the productive apparatus and hence in the composition of the national product. The features of this subtype of income concentration are highly specific, since they are related to a little-diversified socio-economic structure and to forms of social domination which are severely hierarchized and dependent on the concentration of land-owning or mining wealth. This is a case of oligarchy, which has perhaps never existed in a pure form and which largely disappeared from the Latin American political scene some time ago.

The specific social situations in the countries of the region represent complex variants of declining oligarchic elements coexisting with more modern forms of economic production and social domination. This more mixed subtype could be called *modern elitist*. It is

characterized by a more heterogeneous and perhaps more complex relationship between the productive and social forces which exert pressure—invariably conflicting—on the distribution of income.

In either case, the income concentration at the top of the scale always depends on a certain element of coercion, either latent or open, which must be exercised forcefully and implacably. It is perhaps in the type of coercion that a clearer division can be established between the traditional and modern political forms of elitist concentration. But since such a distinction is of little practical importance for the purposes of this study, it may be considered that the above observations suffice to make our point, and a more thorough analysis of the question is therefore not justified.

Thus, any mention below of the *elitist type* refers primarily to the modern variant based on a certain level of technological modernization and diversification of production and on the existence of social formation made up of varied and not always homogeneous social forces with different levels of organization, which can join together in many possible ways; that is why the political régime becomes complex, dynamic and unstable.

Elitist concentration is a type of distribution which calls for more than the manipulation of political and ideological resources to control the shaping of public opinion and the political behaviour or the mass of the population. It also calls for the definition and promotion of development strategies which can channel the growth of money income produced by rapid growth of the economy and by "controlled" inflation whose effects can be exploited by the group controlling State policy, either

⁴² C. Furtado, *O mito do desenvolvimento econômico*, Paz e Terra, Rio de Janeiro, 1974, p. 88.

from within as technocrats, or from outside, in the domestic or foreign so-called private sector.

This is possible only if these groups are sufficiently important within the State and the more sensitive decision-making centres to be able to influence the complex machinery of fundamental economic and social relations (allocation of resources for investment and consumption, prices and wages policies, taxation and fiscal policy, social policy, organization and expression of the demands of the labour force, etc.) and the formation and orientation of social forces in such a way that they favour their own particular interests and political objectives. Hence the elitist type must necessarily be more authoritarian and frequently adopts forms of military domination.

Clearly, an "austerity policy" entailing price rises and the holding down of wages to contain inflation and stimulate productive growth cannot be carried out in just any social situation. Such a policy does not win elections and generally does not generate spontaneous consensus in support of the development style promoted. It often triggers off strong social reactions, and it clearly wins less consensus than a populist redistribution policy with large increases in the popular share of total income.

The elitist type of concentration, in this respect, tends to have a positive effect on the side of higher employment (public infrastructure works, housing plans, etc.), but at the same time it depresses the incomes of the dependent workers, lowering the real wages of the majority of workers and employees. Naturally, this is a very difficult strategy to carry out without a political régime which possesses the necessary authority to apply the coercion such policies require. Hence the importance of the military

factor among the social forces which promote and support the prevailing style.

A political régime compatible with this distribution policy must necessarily be more authoritarian and coercive and will probably often have to rely on open repression to contain the pressures of the social groups left on the sidelines of the economic process, whose aspirations and demands rise, at least potentially, with the process of modernization.

For many, there is a clear contradiction between two factors: on the one hand, there is the increasing modernization of social attitudes, which means that social groups and strata of considerable strategic and functional importance in the economic structure are more prone and better able to formulate demands and ask questions, especially as their aspirations for greater well-being are strongly stimulated by the demonstration effect and by international patterns of consumption, while on the other hand, the material benefits they receive under an elitist style of development are scanty.

It is not really the groups in the lower layers of the income pyramid who feel most deeply the effects of this contradiction. It is not they, by any means, who exert the greatest pressure, but rather the socially-mobile middle sectors who have acquired professional qualifications through the educational system and do not feel suitably rewarded by a development style which in one way or another concentrates the increases in income at the very top of the distribution. The existence of minorities which enjoy privileges under the situation and can take advantage of the State to appropriate the larger income generated by rapid economic growth outrages them, rousing them to a variety of political and social reactions.

In such circumstances, it seems difficult for the political régime corresponding to this style of elitist concentration to be legitimated and its public policy endorsed by a consensus of an electoral nature. It is equally difficult for it to tolerate the working of a political market-place in which the great national problems are openly discussed. Political pluralism and the public discussion of different options can hardly be reconciled with the predominant political style in a society containing severe contradictions and social tensions which the political régime must check or neutralize.

A survey of the Latin American scene shows that, where this type of concentration predominates, elections are either not held or else have no direct function or real influence in the appointment of the political leaders and the fixing of the political orientations of the State. Instead, the State comes to depend on a civilian-military technobureaucracy which becomes autonomous and neither answers for its decisions before political entities involving popular representation (parliaments, parties, etc.), nor feels the need to justify its actions electorally.

These are the conditions in which the more extreme versions of "developmentalism" may arise, where economic growth becomes an end in itself, while the distribution of its benefits to the majority of the population is postponed for a long time, even though the growth rates may be very high. The elitist styles of concentration are essentially developmentalist, or incrementalist if one prefers that term. The final justification of income concentration at the top is economic growth, and next to high growth rates of the product the other problems may be considered secondary or, in any case, may be

postponed until the corrective dynamism of the market and the system can deal with them.

The style of development which leads to concentration at the top, primarily at the expense of the centre, cannot take place without the blocking and destructuring of the social sectors capable of questioning it, because the social tensions it creates are very strong and must be contained if it is to function efficiently. The formation of political opposition must therefore be averted by disarticulating the labour force's capacity to exert pressure, controlling public opinion and ideological discussion, and checking the emergent social and political movements which might channel the demands of the broader social sectors.

In fact the elitist political régime consists of a coalition of minorities made up of little more than 5 per cent of the population, although with a varying degree of support from broader sectors. In general, it comprises the domestic and foreign industrial entrepreneurs, technocrats and professionals, and entrepreneurs in trade and services, in alliance with traditional property-owning sectors. What is really decisive in this type of political régime, however, is the military presence which holds it together and backs it up with the weight of its coercive power.

In sum, once a certain degree of productive development has been reached, elitist concentration is inseparable from a political régime which possesses great authority and exercises it to implement a development style whose various strategies are all aimed at a form of developmentalism designed to secure a very high rate of economic growth and technological modernization, on the basis of ever-increasing participation of

foreign capital and a high rate of private savings and productive investment.

The supposedly necessary condition to achieve these ends is a high concentration of income at the peak of the distribution. The sociopolitical requirements are a politically disarticulated and demobilized society, with a political class which has lost its functions, influence and power, and has been heavily discredited so that, at least temporarily, its capacity to promote the formation of a broadly-based political will has become almost negligible. A modernizing technobureaucracy occupies strategic positions within the State and partially replaces the political class in its decision-making functions, taking on responsibility for the implementation of development policies with the backing of the authority of the State and without the political supervision of parties and parliaments. The State's capacity to mould this style of development stems primarily from its coercive power and the rationalizing activities of the technobureaucracy. This capacity is strengthened by the inert presence of a demobilized and disorganized labour force, with large sectors of the population fighting to obtain work, thus bringing down salaries and undermining still further the workers' limited capacity to exert pressure and to negotiate in the face of the demands of the entrepreneurs and the coercion of the State.

These conditions—and others which in the interest of brevity we shall not mention—make possible the success of the policies designed to concentrate income and wealth at the very top, as may be seen in some Latin American countries. However, it is hard to judge the long-term continuity of this type of régime, because it depends on continuous growth and implies high social and political costs which increase as the

economy becomes more dynamic and society more modernized. In these circumstances, the political demands of the masses and of socially articulated groups may be hard to contain or check, especially if a situation of economic stagnation should arise. Any compromise solution would then call for adjustments in the allocation of incomes which could rapidly lead, for example, to a mesocratic kind of spread in the distribution pyramid.

The features of the mesocratic type of income concentration contrast considerably with those of the elitist type described above. While, as we have seen, in the latter the concentration of income in the richest five per cent of the population is very marked and mainly occurs at the expense of the strata in the centre of the distribution pyramid, in mesocratic concentration the greatest accumulation in the course of economic growth occurs instead in the upper middle group immediately below the top five per cent. In this case, the pattern is that while much of the growth of income produced by the expansion of production is concentrated in the upper middle groups, the relative position of the two extremes worsens, and there is a considerable decline in their share.

The two types of concentration represent very different modes of income distribution, particularly with regard to which groups are hurt or benefited, the economic characteristics of the growth and the social forces directing and promoting it.

The basic question here is to determine the conditions of occurrence of this type of concentration, which appears to be atypical with respect to the dynamics of classical capitalism. The historical data furnished by Kuznets⁴³

⁴³ See S. Kuznets, *op. cit.*, page 3 *et seq.*

clearly show that the normal situation in the early stages in the countries of original capitalist development was one of high elitist concentration, slowly and progressively (over two or more generations) passing to a more mesocratic structure of concentration. Why, then, do some Latin American countries which also appear to be at the take-off stage and are reaching the threshold established by Paukert nevertheless have a more elitist type of distribution profile?

Following the line of analysis adopted for elitist concentration, we shall now make a few remarks on the sociopolitical conditions for the emergence and continuity of mesocratic concentration, based on the descriptive material given above.

Mesocratic income concentration is characterized by a more open and pluralistic political régime. Effective political participation is greater, and both political succession and the continuity and legitimation of the government depend on popular elections, at which a variety of political options compete. Parliamentary discussion, negotiation and political compromise, where a political class with influence and prestige has great weight, are the essential machinery in the process of formulating the strategies to define and implement the prevailing style of development. In régimes of this kind a large technobureaucracy still exists, but its field of action is more limited and less autonomous, since it is under the control of a deliberative, pluralistic and consensual political régime and an autonomous and powerful political class. It would therefore be more proper to speak of a modernized bureaucracy rather than a techno-bureaucracy, because it lacks the latter's decisive autonomy.

Perhaps the most significant feature of the mesocratic power structure is the

weakening or disappearance of the traditional oligarchy or élite in which much of the wealth was concentrated through its ownership or latifundia, sources of unearned income or financial and speculative assets, and which weighed heavily in the concentration of income. In Mexico, the Maderista revolution destroyed this traditional land-owning class, while in Venezuela the crisis of the thirties and the oil boom greatly reduced its previous preeminence in the Venezuelan economy and State. What disappears along with this class is the great historical original concentration of wealth and income, which is a typical aspect of elitist concentration and which has enabled this traditional wealth-owning sector to maintain considerable weight, perhaps not so much in the economy, since its relative importance declines, but rather in the political sphere, where it controlled important sources of traditional and local power largely deriving from the ownership of rural property and territorial sway.

The alliance of social forces which formulates and promotes the mesocratic style from within the State has a broader coverage and is more diversified than the social basis of the elitist style. In the first place, it may be recalled that in it the margin for the play of politics is considerably wider. Secondly, the weight of the upper middle sectors is predominant because the mesocratic type is dominated by the political class, the bureaucracies, professional associations, employers' associations, top union management and, last but by no means least, the armed forces. All these sectors combine their interests in order to define the political style. Finally, perhaps the difference in the social composition of the dominant groups is not as important as the difference in the nature of their political dynamics and the role of the

State. In other words, the real difference lies in the more consensual and pluralistic nature of the mesocratic type, which goes hand in hand with a political régime which is more open to direct negotiation and to the interplay of interests of organized and mobilized groups which compete in the political arena on crucial income policy issues.

In general, the mesocratic type of concentration stems from a political society with higher levels of participation and a political dimension more open to the pressures of the various organized interest sectors, whose weight in decision-making may come to be considerable. However, there are structural limitations which, for one reason or another, restrict access to the channels and positions of social participation which are of importance for political decisions. Thus, for example, the great availability of unemployed, underemployed and badly employed labour slows the build-up of social forces and their claims, by introducing an element of instability in the jobs of the groups in the lower half of the income pyramid. This reduces their capacity to negotiate

wage increases and, consequently, their direct influence on incomes policies. While these factors mean that the economic and social position of these groups is weakened as regards their ability to exert pressure in the labour market, they nevertheless retain a great political potential which can be decisive in a representative régime depending on elections for political succession and legitimation. For this reason, and to gain their electoral support, at election time there tend to be indiscriminate wage increases and social security improvements, and an expansion of public investment policies designed to produce short-term effects on working class employment and incomes (such as public works, housing plans, etc.). These measures cause sharp short-run fluctuations in the profile of the distribution and in the relative position of the various income groups.⁴⁴ This is perhaps the main source of instability in the mesocratic distributive pyramid, which, because of the difference in the political base supporting it, becomes much more variable than the elitist-type pyramid, while its main trends are less easily perceptible in the short term.

5.

Some dynamic factors and their effects on income concentration

The attraction of a populist solution is a latent possibility in the mesocratic type, often exerted when the claims of the organized masses are strong and continuous. It may also be attractive in the elitist type when the political régime is centred around an ambitious personality capable of mobilizing the mass of the population. In either case, a populist solution encounters resistance because

the redistributive concessions rarely hurt the highest income sectors.

The necessary resources are obtained primarily from the middle and upper-middle sectors, whose standards of living

⁴⁴ Cf. CEPAL, *Economic development and income distribution in Argentina*, *op. cit.*, *passim*.

and aspirations —generally exorbitant— may be considerably affected. These social layers, mainly made up of executives, technocrats, professionals and middle-level entrepreneurs, have high levels of consumption and international life styles and receive high profits, salaries and rewards in the big enterprises of the private sector or in the modernized area of the public sector. Often, therefore, their incomes are more closely related to those of their opposite numbers in equivalent strata in the developed countries than to the degree of development and average income in their own country. This visible disparity makes them an easy target of redistributive policies of a populist stamp.

Hence the chronic instability of the populist régime, whose continuity depends largely on overcoming the strong resistance put up by the high income sectors, which possess considerable real power in the State and the economy and do not hesitate to use it to impose other political formulae which fully recognize their force within the leadership coalition and their right to enjoy their prerogatives.

According to the empirical findings of Kuznets and Paukert which we mentioned earlier, the countries of Latin America should now be passing rapidly to a predominantly mesocratic type of concentration, with a growing improvement in the position of the strata at the centre of the distributive scale at the expense of those at the top. The threshold fixed by Paukert for a more progressive distribution —a per capita income of about 500 dollars— has already been passed in some ten countries, as well as by the general average for the region in 1975. An examination of this proposition that progress in distribution depends on per capita income shows, however, that the trend is

neither as linear nor as inexorable as is claimed. There is no strict correlation between the level of income and coefficients of inequality, although there is a vague trend along those lines.

Not all the countries which have passed that threshold now show a more mesocratic type of concentration; in some, precisely the opposite has occurred. Nor can it be said that this kind of concentration, once achieved, is permanent or becomes increasingly more democratic in the distribution of income. On the contrary, frequently this progress towards forms involving less inequality has led to conditions of instability and a backlash entailing a return to more elitist forms of concentration. To consolidate a different type of concentration, the new dominant social forces must be restructured to a very high degree.

This raises an important point which concerns the foundations of this study. It can be put as follows: the productive structure does not condition the distribution of income as directly and mechanically as has sometimes been thought. As far as we are concerned, the two dimensions —production and distribution— are relatively autonomous and interrelated by means of a set of complex connexions in which political mediation plays an important role, particularly in the short term.

In fact, in the distribution and concentration of income the interrelationship between economics and politics is so close that the effects of each tend to be circular. Sudden inflation, or chronic inflation which grows suddenly worse, accompanied by a severe, prolonged economic recession, may well trigger off a severe political crisis leading to the replacement of the governing group by another which better represents the new combination of social

forces. In Latin America in recent years the adoption of shock policies has become widespread. These rapidly lead to a marked concentration of income at the very top, through a laissez-faire attitude to market forces and the implementation of sets of policies adopted by the government.

In other cases, the exchanges in the distribution may stem from an autonomous political change in which fresh or different social forces come to play a dominant role in the management of the State and in the orientation of government policies which affect income distribution. These readjustments are generally intrasystemic, since they do not transcend the original bases of the distribution of income, which are profoundly rooted in the productive structure and the social and political system. Only a social revolution can change these basic rules of the game. In the absence of such a revolution, the socio-economic system can admit, without changing its basic nature, a series of short-term swings and a certain variety of specific social forms which are historically conditioned. These specific social forms and the growth processes they create are what we have called elsewhere "development styles".⁴⁵

Before concluding, a few brief remarks seem to be called for on the difference between the political nature of the short-term and rather shallow swings in income distribution, and the more far-reaching and all-embracing changes which occur when the style of development changes along with the profile of the distribution. In the first

case the variations in income may well be an aspect of the political game, where the tactics which may be used are flexible and are designed to expand the coalition of social forces with a view to fighting an election, for example. Nothing fundamental is changed, and most probably the high-income groups will recover their positions after the election period is over.

It is a completely different matter when the changes in the profile of the distribution stem from structural transformations and new correlations of social forces, and when emergent groups and sectors possess more real power in the civil society and the State apparatus, usually as a result of social and economic modernization. Although these conditions are by no means determinants, the possibilities of change which they offer tend to give rise to political transformations of a permanent nature, effected in order to overcome certain features of the past, these thus become relatively stable solutions in comparison with other political options.

Either of these alternatives represents a variant in the development style, whose direction and main content will define the kind of resource allocation policies as well as the income distribution policies which will prevail. Conversely, the nature of the development style may be identified by the character of these policies. Hence, the viability of a style of development will always depend on the structuring of a political régime which is compatible with it and can ensure its continuity. In other words, the development style rests upon a political will which has the necessary capacity to promote and uphold it; and this calls for a balance between consensus and coercion. The structural tensions at the bottom of this ever-fluctuating balance

⁴⁵ Jorge Graciarena, "Power and development styles", *CEPAL Review*, First half of 1976.

account for a large part of the dynamic correlations between types of income concentration, political régimes and development styles in Latin America.

6.

By way of a brief conclusion

It appears, then, that in general the democratization of income distribution depends on the democratization of society. This appears tautological, and to some extent it is. In addition, there appears to be a high degree of association between power and income. In other words, and to be more specific, the requisites for achieving and consolidating a mesocratic type of income concentration are the broadening of the political game, with more actors and participants, and a specialized political organization led by a political class and guided by a more open and pluralistic ideological market, in which the political régime and the fact of domination are

legitimated primarily through popular consensus. When these political conditions obtain, it is inevitable that income distribution will become more progressive. It could hardly be otherwise, because the acquisition of income is one of the principal targets of the political struggle. The other alternative is social demobilization and the technocratization of politics, with a considerable increase in the amount of coercion and repression needed to ensure the continuity of the prevailing hegemonic régime. Naturally, this has repercussions on income concentration, increasing the inequality of its distribution.

Some CEPAL publications

Economic Survey of Latin America 1975.
E/CEPAL/1014, mimeographed edition,
Santiago, Chile, 1976, 785 pages.¹

In keeping with its practice for more than 25 years, the secretariat of CEPAL has again prepared its annual *Economic Survey* which describes and interprets the most significant aspects of the economic evolution of Latin America in the year under consideration.

The first part of the *Economic Survey 1975* examines the trends and prospects of Latin American development in the light of the changing international economic situation, the second part presents an overall picture of the economic problems of Latin America, and the third makes a more detailed analysis, concentrating on the main economic phenomena observed in 25 countries of the region.

In general terms, the *Economic Survey 1975* stresses that all the countries confronted a triple challenge in the fields of foreign trade, inflation and growth. The order of importance assigned to them in the economic policies of the various countries corresponded more to the priorities attached by the economic authorities to each of these closely-linked areas than to their intrinsic significance.

Thus, for example, in the period under consideration the petroleum-exporting economies again had to contend with a problem which was not common in the region: that of productively absorbing their considerable surpluses. Although the size of these surpluses was proportionally lower in Ecuador and Bolivia than in Venezuela, the smaller size and diversification of these economies accentuated the difficulty of the enterprise. Furthermore, the importance of the traditional agricultural sector in both countries made it more difficult to assign productive resources in such a way as to be able to modify this situation within a short period of time. The very nature of the situation meant that high priority was given to growth as an objective. Although the pressures on the production system threatened the

stability of prices because of the inadequate flexibility of supply, it is also true that the reduction of external inflation, the expansion of imports and some viable measures introduced by these countries – such as the maintenance of the rates of exchange – succeeded in regulating the rise of prices.

The situation of the economies most affected by the circumstances, such as those of Central America, was very different. Their possibilities of action were restricted by their size, production patterns, degree of openness towards the exterior and, above all, their dependence on imported petroleum. In these circumstances, the need to get around the dilemma with the least possible damage seems to have predominated. External co-operation, on the one hand, and the lessening of imported inflation, on the other, constituted the most favourable elements of their situation. At all events the marked reduction in their growth rates did not give rise to critical situations in 1975.

The picture presented by the group of countries whose growth rate was around 4 per cent is much more complex. In them, the problem of selecting and combining objectives was much more acute. In Mexico, Colombia and Brazil, the most representative nations of this group, the situation regarding petroleum was a key factor, although it varied according to the particular characteristics of each country. Brazil had to face a very serious challenge, but the overflowing demand for other imports was even more decisive. A stronger position with regard to external accounts seems to have permitted Mexico and Colombia (especially the latter when the price of coffee improved) to take a more resolute course aimed at counterbalancing the upheaval in the balance of payments. This is at any rate suggested by their respective fiscal policies, although that of Brazil, after attaining an appreciable surplus in 1974, passed into virtual equilibrium in 1975. With regard to inflation, it may be noted that the lesser intensity of the rise of international prices facilitated greater discipline in domestic prices.

With regard to Peru, the *Economic Survey* notes that this country experienced one of the worst imbalances in its external accounts. This was partly due to the behaviour of exports, which were affected by various factors, but it was above all attributable to the big rise in imports brought about by the major investment projects in operation. Rejecting the orthodox approach of restricting expenditure and investment, the country chose to risk a serious drop in its international reserves and greater

¹The printed version is now in the press.

inflationary pressures, basing its action on significant external financing fairly similar in scope to that secured by Brazil or Mexico.

Argentina and Chile registered the most unfavourable results as regards growth. In both countries, and especially in Chile, the influence of external elements was evident and considerable. It seems clear, however, that the domestic circumstances greatly increased this burden. In Argentina the inability of the economic authorities to control the fluctuations and instability of the general political evolution seems to have been the main factor, while in Chile the salient aspect is the overriding concern about the problems of inflation and the balance of payments, which caused the question of the possibilities of growth to be relegated to a very secondary place.

The evolution of the English-speaking Caribbean countries is more difficult to evaluate because of the lack of data on their economic activity. Nevertheless, the available indicators suggest that among the larger countries of this group, only Guyana and Trinidad and Tobago achieved significant growth in real terms. Both countries—and especially Trinidad and Tobago, which is an oil producer—had sufficiently strong external positions to be able to increase the volume of their imports. At the other extreme were Jamaica, whose real growth was very small, and Barbados, where the product seems to have diminished in real terms.

The complex combination of efforts aimed at presenting the best statistics available, describing and interpreting the various national situations and elaborating hypotheses based on comparative and overall analyses once again make the *Economic Survey of Latin America* an indispensable reference work for all those concerned with the economic evolution of the region.

El desarrollo esquivo (Elusive Development), by Marshall Wolfe. *Fondo de Cultura Económica*, Mexico, 1976, 311 pages (currently available only in Spanish).

The set of studies assembled in this book provides a representative picture of the effort made by its author, who is Director of the Social Development Division of CEPAL, to reply to the following questions: Are national societies moving nearer to the declared values of human well-being and social justice? What can the United Nations bodies recommend or

do to ensure that real trends coincide as far as possible with these values?

In seeking an answer to these questions, the author has taken the line that any contribution to an objective reply is worth the trouble. However, it has been very difficult to reconcile this conviction with the ritual and evasive ways in which such questions have often been raised and answered in the international dialogue. The documents in which the author has been able to express his personal reaction to the institutional imperatives of identifying "progress" and offering solutions have been imbued with his concern about the discrepancy between the principles of rationality and harmony which should be respected and the reality, where "development" only emerges from complex and confused struggles at the international, national and local levels; where the efforts made by the various centres of power and social forces have different consequences from those which they themselves wish or hope for, and where it is uncertain whether the institutions and individuals which constitute the State have the capacity to orient the processes of change in a coherent direction.

Over the years, as the emphasis of his works has varied, the author has been able to express his concern with greater clarity, partly in response to the increasing dissatisfaction within the international organizations regarding the traditional thinking on development and partly too through his exposure to the unofficial intellectual climate of Latin America, which sharply questions "developmentalism".

The chapters appear in the reverse order to that in which they were written, and start with the author's most recent efforts to scale the "Tower of Babel" of development. Chapters IX and X, written in 1966 and 1967, are attempts to relate the international prescriptions for public action in two sectors—education and social security—to the social structures characteristic of Latin America, showing the confrontation between the ideal objectives and the heterogeneous pressures existing within the societies, and suggesting some tactics for bringing the ideal closer to reality. Chapters VII and VIII are concerned with the broader and less clearly defined spheres of the policies relating to the growth and the spatial distribution of the national population. In the international debate, there has often been a tendency to deal with these spheres in terms of high-flown objectives and predictions of catastrophe which bear very little relation with what

the Latin American national régimes have wished for or tried to do in this respect. Chapter VI describes the discouraging history of formal planning as an instrument of development and the attempts to improve its efficiency by incorporating new material under the title of "social planning". Chapters IV and V were prepared as a contribution to a joint project in which CEPAL co-operated with other United Nations agencies in seeking a "unified approach to development analysis and planning". In these chapters an attempt is made to describe and classify the heterogeneous social and political structures and circumstances and the links between the national centre (or State) and society which have to be borne in mind to make the "unified approach" a reality, the aim being to show those who advocate technocratic or normative-utopian solutions the elusiveness of some of the characteristics of the present-day world.

Chapters III and IV speculate on the criteria to be used for classifying the national societies in accordance with their capacity for introducing particular styles of development, although the author doubts whether there can be any reliable typology that can serve as a guide to what a particular society can or will do. Both chapter III and chapter II derive from the "unified approach" project, and in them the author draws on his experience to explain the confused mass of values, images of human society and action orientations which persist in the international debates on "development", and to suggest some possible reasons for them.

The validity of the explorations described in this book depends on acceptance of the premise that the study of development is not a futile task, condemned to offering solutions which will always be inadequate and belated, but a worthwhile effort to grasp an ever-elusive objective. If the book encourages some of the potential agents of development to reflect more on what they are doing and to wonder whether they should consider new approaches, then it will have served its purpose.

Experiencias sobre cálculos del producto interno bruto regional (Experiments in calculating the regional gross domestic product), E/CEPAL/1012, mimeographed edition, Santiago, Chile, 1975, (Spanish only).

Most of the Latin American countries face problems of imbalance in their regional

development. In order to correct this situation it is necessary to take various measures based on knowledge of the structural characteristics of the economy and their conjunctural development from the regional point of view.

In general, not much information is available on this subject and no appreciable progress has been made in establishing continuous, permanent and reliable statistical systems on which regional economic development policies can be based. Although there is a constant increase in the need for information for elaborating policies to resolve national, sectoral and regional problems, with a consequent increasingly heavy burden on those who supply the statistical data used for these purposes, the users do not usually receive this information in time, or else it contains omissions, duplications, conceptual incompatibilities or is of inadequate coverage.

The situation as regards the estimation and calculation of regional economic indicators is perhaps even more unfavourable. The shortage of resources, the dispersion of the regions, the difficulties of communication and the reluctance to supply data to public bodies are elements which to a greater or lesser extent impede the measurement of such economic variables.

This document analyses some significant experiments made on this subject. Although most of them were tailored to the specific needs and objectives of the individual countries which carried them out, they do display a certain uniformity, in general attaching particular importance to the calculation of regional development indicators and data and to obtaining economic and social information which is useful for regional programming and for integrated planning within the institutional framework in which the countries operate.

The document is divided into two parts. The first sets out the general objectives, the methods used and the sources from which the statistical information was obtained. The second gives a systematic compilation of the statistical data, divided into three groups:

The first group contains tables on the provincial, state, departmental or regional per capita gross domestic product and its relation with the national average. The information collected was combined with estimates of the total population in order to show, by some simple calculations, the regional structure of the generation of the product and its spatial disparities with respect to the distribution of the population.

The second group consists of tables on the gross domestic product at factor cost or at market prices, in current or constant prices, by branches of economic activity and by provinces, states, departments or regions. These tables contain data on ten countries, for all the years for which information is available and for each country as a whole.

The third group contains tables of the estimated gross domestic product at factor cost or at market prices, by branches of economic activity, and by provinces, states or individual regions.

Situación y evolución de la agricultura y la alimentación en América Latina (Situation and evolution of agriculture and food in Latin America). Joint CEPAL/FAO Agriculture Division, E/CEPAL/1017 and LARC/76/2, mimeographed edition, 1976, 134 pages (Spanish only).

This report was prepared by the Joint CEPAL/FAO Agriculture Division for presentation to the CEPAL/FAO Latin American Food Conference organized by the two agencies in Lima in April 1976. Its purpose is to analyse the main aspects of the recent evolution of agriculture and food in the region, to present the results obtained and describe the way in which they were reached, and to offer an overall interpretation.

The report is divided into four chapters. The first places agricultural activity in the context of global economic development and the Latin American situation, with particular reference to the external trade in agricultural products and its link with variations in the international markets. In this connexion it stresses and analyses the decline in Latin America's relative share in the volume of the world trade in agricultural products between 1971 and 1974, which was fortunately offset by the rise in the value of these products.

The second chapter concentrates on the evolution of production in the areas of crops, livestock, fisheries and forestry and studies its reaction to the recent changes in the international markets. It stresses the sharp increase in the volume of crop-farming production in 1974, which was 8.4 per cent higher than in 1973, particularly in the case of coffee, soya beans, cotton, and sorghum, and to a lesser extent in that of wheat and sugar-cane. Fishing activities increased steadily by 2 per cent per

year between 1971 and 1974, but suffered serious setbacks in exports: an aspect to which special attention is paid.

The third chapter studies the utilization of the productive resources in agriculture, the technological aspects involved, and financing and credit arrangements in this field. It stresses the fact that the development of agriculture in Latin America continues to be based mainly on expansion of the area cultivated, both through widening of the agricultural frontier and through more efficient utilization of the land already in production (in 1974 4.2 million more hectares were cultivated than in 1973 – an increase of 5.3 per cent). Similarly, there has been increasing incorporation of more advanced production technologies, especially by the large and medium-sized producers, although the considerable rise in the price of fertilizers slowed down this process, especially in 1974. From the point of view of financing, it is noted that the public sector has shown greater concern for the supply of funds for the creation of marketing infrastructure, agro-industries, the exploitation of natural resources and the extension of the irrigated area. International financial assistance to this sector has also increased in recent years. The credits still tend to be concentrated among the medium-sized and large producers, however, leaving aside the small producers.

The fourth and last chapter examines the supply of food in Latin America and the evolution of food prices, with some hypotheses on future demand. Although the supply of food has remained essentially the same, the widespread inflation in 1973, and particularly in 1974, caused the retail prices of food to rise more rapidly than the cost-of-living index in almost all the Latin American countries. The inflation in the region as a whole was 34.6 per cent in 1974, but food prices rose by 47.8 per cent as a regional average, and thus registered an increase 13 per cent higher than that of inflation in general. This has brought adverse effects for the consumers, especially among the poorest groups of the population.

Taking into account the information available on income distribution in Latin America and the behaviour of the different income groups, the document gives a rough outline of the calorie deficits and surpluses of the region with respect to minimum requirements. The consumption of the very low income group (20 per cent of the population) shows a pronounced calorie deficiency, while the alimentary

energy consumed by the low income group (30 per cent of the population) is below the minimum needs. The middle and high income groups (30 per cent and 20 per cent of the population, respectively) appear to have a calorie intake equivalent to or higher than minimum needs, and in the very high income group the food consumption seems to be characterized by the downright waste of alimentary energy. It is not possible to reach precise conclusions on the number of persons in danger of malnutrition, because very little is known about the distribution of families within each income group, but other studies analysing the world food situation have estimated that in 1970 there were 36 million persons in the region threatened with protein-energy malnutrition. This is a fairly conservative estimate and amounts to only 13 per cent of the Latin American population. If this proportion was maintained until 1975, there would now be 42 million people threatened by protein-energy malnutrition (see United Nations, *Evaluation of the world food situation*, World Food Conference, E/Conf.65/3, Rome, 1974).

El sector agrícola en los esquemas de integración económica de América Latina. (The agricultural sector in the economic integration schemes of Latin America). Joint CEPAL/FAO Agriculture Division, mimeographed edition, Santiago, Chile, 1975, 218 pages (Spanish only).

This document explores some fundamental aspects of agricultural integration and reviews and appraises the main events which occurred in the region up to mid-1975. The first chapter contains a summary of the work and describes the conclusions arrived at in it. The progress made in integration is then analysed and the characteristics of the agricultural sector and the treatment given to agriculture in the various treaties and agreements in force in the region is briefly reviewed. This is followed by an examination of the potential of this form of co-operation for the development of agriculture in the countries of the area and a recapitulation of the advances that have been made in the various integration schemes. The third section of the book deals with agricultural trade in the region, its recent situation, problems and perspectives, with emphasis on trade policy at the regional level. The document ends with some considerations on the co-operation which

countries and international organizations should make available in order to promote the integration of the agricultural sector. Two annexes, which include statistical tables and bibliographical references, complete the study.

The document maintains that the ultimate objective of integration is to make possible the adoption of a new style of economic and social development in the region which would favour the introduction of structural changes in the economies of the countries involved in the various agreements. It takes the view that the ideal of integration still enjoys full political validity and relevance despite the criticisms, delays and setbacks and the varying degree of accord among the countries.

Achieving greater viability of the integration schemes depends on the degree of coherence and rationality which exists both in the economic relations between the countries belonging to the different schemes and between the schemes themselves. The document therefore reaffirms that integration should be conceived not as an end in itself but as a policy comprising a varied range of actions which can be modified in the light of the advances and setbacks observed and must constantly incorporate new forms or expressions of co-operation within what has appropriately been described as a "new praxis" which must be able, if necessary, to rise above the limitations imposed by the treaties.

If some institutional problems were resolved in the agricultural sector, decisive progress could be made towards realizing a form of integration which would give full rein to its potential as a dynamic factor for the strengthening of national agricultural development policies. To achieve this, joint actions would have to be carried out in the short term so as to broaden and deepen the way in which the process is put into effect in the different schemes and also to promote an interdependence of interests which would lead to greater collective participation, not only through greater mutual trade but also in relations with third countries. These efforts, many of which have already been initiated, aim to achieve a better use of resources through specialization and complementation, as well as the utilization of possible comparative advantages. In the long term this should culminate in a full co-ordination of regional agricultural development, which should naturally be accompanied by the harmonization of the other sectors of the regional economy.

Information classification manual for the transport sector. E/CEPAL/1008/Rev.1, mimeographed edition, Santiago, Chile, 1976, 214 pages (in English).

As its title indicates, this document is a manual for analysing and classifying by subjects all information on the transport sector. It is very much a reference manual, although it is necessary to understand its structure fully in order to be able to use it adequately.

The *Manual* serves three main purposes:

— To prepare sectoral diagnoses. Generally, before formulating a new plan for the transport sector, it is desirable to study the present situation in the sector to identify its strengths and weaknesses. The *Manual* can be used to give such a diagnosis a systematic structure so that important categories of information are not overlooked. This structure can also help ensure that successive diagnoses cover the same points, thus making possible a comparison of progress in the sector over different periods.

— To classify information. For rapid and accurate retrieval, information should be classified and organized systematically. The structure of the *Manual* permits it to function as a classification system specifically designed for information pertaining to the transport sector. This system can be applied equally well to bibliographic reference files, with cross indexing in accordance with the topic codes of the *Manual*.

— To identify the information needed for planning. The formulation of modal and sectoral development plans is often hindered by difficulties in identifying exactly what kinds of data inputs must be supplied to the planning process. Although the *Manual* does not prescribe the specific data items that must be supplied, it does identify virtually all the relevant types of information. Thus it can be used as a guide to the identification of those data most appropriate to a country's planning apparatus, data generating possibilities and data processing capabilities.

The *Manual* is divided into two parts. The first concerns the transport sector in general and contains chapters on spatial and geographical aspects, historical trends, transport and the economy, the institutional framework of planning, patterns of transport, facilitation, and the technological and methodological base. In the second part each chapter is devoted to a particular mode of transport: airports, air transport services, roads, road transport servi-

ces, pipeline transport, rail transport, ports, maritime transport services, inland waterways and ports, inland navigation services and multimodal transport.² The chapters of both parts of the *Manual* are divided into topics and sub-topics. The chapter code, together with the topic code, constitutes a classification code which can be applied to information in order to facilitate its use and analysis. Thus, for example, the code of data on "improvement of the procedures for the reception and dispatch of ships in port" would be F3.2.

Work is currently in progress on the preparation of a microthesaurus (controlled vocabulary) of transport terminology based on this *Manual* which will make it possible to identify information directly by the use of descriptors. Thus, for example, the topic mentioned above would be codified as follows: /SIMPLIFICATION / of / PROCEDURES FOR RECEPTION / and / PROCEDURES FOR DISPATCH / of / SHIP / S in / PORT / S, the terms which appear between slashes being descriptors taken from the microthesaurus. This vocabulary is consistent with that of the *Macrothesaurus* of the Organisation for Economic Co-operation and Development, that of the *List of Descriptors in the Field of Transport Economics* of the European Conference of Ministers of Transport and that of *Theasaurus 1972 of International Road Research Documentation*, but it adopts the criterion of the *Manual* which stresses the close connexion between economic development and transport planning.

Dos estudios sobre inflación (Two studies on inflation). *Cuadernos de la CEPAL*, N° 9, 1976, 57 pages (Spanish only).

This Cuaderno contains two papers, one on inflation in the central countries, and the other on Latin America and imported inflation in 1972-1974. The first is devoted to an analysis of some of the main aspects of world inflation in the industrialized countries. The importance and topicality of the theme are too obvious to require any justification of their discussion. Populations and governments everywhere are concerned with price increases and the social and economic consequences of inflation, which

² A chapter on urban transport is being prepared.

cause concern even in the socialist areas because of the transmission of inflationary pressures from outside. In the current state of affairs, however, which in many ways is exceptional, the problem arises alongside another of perhaps even greater consequence—that of the loss of dynamism, if not downright contraction, of the central economies— and like inflation this phenomenon affects the rest of the countries, which are linked with these economies and dependent on them in various ways.

As is well known, the relative significance of each of these questions tends to change with the passage of time; while in mid 1974, for example, inflation seemed the predominant danger, in 1975 economic stagnation took over that place. Thus, although this study is concerned with inflation, it should not be forgotten that—particularly in the current circumstances— it should be viewed in a much broader context than that determined by the variables which are normally considered in studies on the subject.

The second paper, written by H. Assael and A. Núñez del Prado, concentrates on analysing the impact of imported inflation on Latin America. The first part describes the general inflationary panorama of the region, compares it with previous cycles, and notes that the process acquired more intensity and greater extension than in previous periods. The second part highlights the particular features of recent inflation, particularly the predominance of impulses from the exterior. The third part briefly examines the mechanisms of transmission of imported inflation: both those which operate through the external sector and those which are felt through the channels of the domestic economy. The fourth part identifies some of the main links between imported inflation and the domestic conditions which facilitate or increase its internalization. It is noted that the dimensions and structure of the external sector were decisive elements in the outside pressures on prices, and stress is placed on the influence of structural heterogeneity, the inflexibility of supply, and the degree of development of the financial sector.

The fifth part studies the links between imported inflation and economic policy. It identifies the two basic options (confrontation or co-existence) which were available to the six countries considered, in the face of imported inflation, and the reasons why they chose one or the other. It examines the main economic policy measures adopted by Bolivia, Costa Rica

and Ecuador, which opted for confrontation, and those adopted by Brazil, Colombia and Uruguay, which decided on a kind of co-existence with imported inflation.

Finally, the sixth part presents some of the main considerations which can be drawn from the experience analysed, particularly as regards imported inflation and the response of economic policy to it.

Report of the Caribbean Development and Co-operation Committee, E/CEPAL/1010 and E/CEPAL/CDCC/8/Rev.1, mimeographed edition, Santiago, Chile, February 1976, 79 pages (in English).

This document reviews the results attained at the first session of the Caribbean Development and Co-operation Committee held in Santa María del Mar (Cuba) in November 1975. This Committee is a permanent subsidiary body of CEPAL and is constituted by the Bahamas, Barbados, Cuba, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Surinam and Trinidad and Tobago.

The report is divided into five parts. The first is concerned with the attendance, agenda and organization of work, while the second presents a summary of the Committee's discussions, conclusions and decisions. The third is devoted to the Constituent Declaration of the Committee, in which the governmental representatives set out the reasons which led to the creation of this body and the objectives which are to be pursued. The last two sections present the resolutions adopted, which, among other aspects, establish the possible areas of co-operation of the Committee with other member countries of CEPAL and the financial and budgetary implications of the work programme of the Committee.

Indicadores del desarrollo económico y social de América Latina (Indicators of the economic and social development of Latin America). Cuadernos Estadísticos de la CEPAL, Nº 2, 1976 (Spanish only).

This Cuaderno makes a systematic presentation of the main statistics and indicators which form the quantitative base for the analyses and studies carried out for the second regional evaluation of the International Development Strategy. The corresponding tables are preceded

by an analysis of the criteria which have been applied in selecting the indicators, of their significance and the analytical concepts which characterize them, and of the sources of information used. A study is also made of the statistical value of the data in question.

The indicators have been classified and grouped in the light of the major themes covered by the IDS and they follow, in particular, the structure of the general document. Furthermore, in making these classifications, an attempt has been made to assemble the information in accordance with the interrelations existing between the different economic and social variables to which the indicators refer.

In this way an integral quantitative picture is offered for studying and interpreting the development process as regards economic growth, human and social development, the internal effort and the evolution of external relations, especially in respect of trade and financing.

Reactivación del Mercado Común Centroamericano (Reactivation of the Central American Common Market). *Cuadernos de la CEPAL*, No 10, 1976, 145 pages (Spanish only).

The first and second parts of this Cuaderno contain the most relevant aspects of document E/CEPAL/CCE/367/Rev.3 prepared by the CEPAL office in Mexico for the Tenth Meeting of the Central American Economic Co-operation Committee held in Tegucigalpa, Honduras, from 28 to 30 May 1975, while the third part contains the resolutions adopted at that meeting.

The first part outlines the conceptual framework for a short-term programme aimed at reactivating economic integration in Central America, this framework being based on a brief diagnosis on the recent evolution of the Central American economy and the integration process of the area. Central America has been hard hit by the international economic reorganization because of the small dimensions of the economies of the sub-region, their openness to international trade, the fact that they are exporters of basic non-strategic commodities and importers of fuels, and their limited capacity for adaptation to changing situations. They should therefore act in a united manner in the international community in order to try to climb a few rungs in the new stratification of the world. The Central American integration process has not, however, succeeded in

broadening its original commitments—indeed these have tended to be reduced—nor has it increased its institutionalization, so that there is a need to deliberately encourage a broadening of the process to include new activities.

The phenomena described, which could give rise to an accumulation of adverse effects due to both crises—that deriving from the international economy and that deriving from integration problems—are the main considerations in a short-term strategy based on joint actions, involving the participation of all five countries of the region, to resolve common problems, essentially through the implementation of projects and programmes. The essence of this strategy is the possibility of establishing through it, in the immediate future, a platform of partial agreements and programmes without necessarily securing prior official adoption of a global programme for restructuring the common market. Such joint actions or projects, in addition to mobilizing the interests of the countries around the solution of particular problems, offer greater possibilities of success than measures unilaterally adopted. This approach to integration is not an alternative to the global restructuring of the process: the two approaches are complementary and tend to converge and support each other.

The second part of the Cuaderno contains specific proposals aimed at improving the regional capacity for confronting the unfavourable international economic situation. The most noteworthy of these proposals are the establishment of a mechanism for joint sales of the surpluses of some basic products; the creation of a Central American External Financing Commission; the adoption of machinery for the joint purchase of fertilizers; the creation of various committees for industrial promotion; the establishment of a regional group of experts in project preparation, etc.

The third part, as indicated at the beginning of this summary, contains the resolutions adopted by the Central American Economic Co-operation Committee at its tenth meeting.

La promoción de Manufacturas en México y la política de promoción. (The promotion of manufactures in Mexico and the promotion policy used). CEPAL/MEX/76/10, mimeographed version, Mexico City, 1976, 268 pages (Spanish only).

This document, which was prepared in conjunction with ILPES, analyses the Mexican

experience in the export of manufactures and forms part of a set of studies of similar scope carried out by CEPAL on some other countries of Latin America, the conclusions of which, together with those of the research carried out by the World Bank on countries of other regions of the world, will be discussed at a meeting to be jointly organized by the two institutions. It contains seven chapters dealing with the following topics: the role of exports of manufactures in the economy, and especially their contribution to the industrialization process and their effect on the external sector; the factors which affect manufacturing exports from the angle of demand; features and problems of supply, seen from the point of view of the production sector; the promotion policy and the main instruments and institutions which go to make it up; the influence of the various multilateral or bilateral agreements in which Mexico participates on its manufacturing exports, with reference also to the Generalized System of Preferences; external marketing arrangements and, finally, the sub-contracting system and the corresponding official policy.

Since the mid-1960s Mexico has been promoting an intensive policy of incentives for the export of non-traditional products, and the external markets have been assuming increasing importance and relevance in new investment projects in the industrial sphere.

The results have been noteworthy, for the external sales of industrial products, at constant prices, have expanded at rates of over 20 per cent a year, and even more during the most recent five-year period. This dynamic growth has been accompanied by an equally noteworthy diversification of products and markets; while the relative share of the traditional manufacturers remains constant, that of metal-working products has greatly increased, particularly in the case of mechanical, electrical and automotive products.

The dynamic behaviour of exports is partly due to the efforts made by the Government, which, backed by a complex and effective network of institutions and instruments of domestic and external promotion, have in particular supported the action of the traditional medium-sized and small entrepreneurial sectors, and partly to the broadening and creation of new production capacities in key sectors by transnational enterprises which, although they are the beneficiaries of such measures, base their export decisions on

policies which are defined in a broader context than the national one.

The State promotion policy comprises numerous instruments, the most significant of which are financial (export and pre-export credits), fiscal (tax refunds or CEDIS), tariff-oriented, or else designed to assist exporters commercially or technically. The programmes or agreements designed to encourage enterprises to export are of a more specific nature and include the agreement that the automobile industry should finance its purchases abroad with exports.

The exports of manufactures have, however, come up against serious difficulties. In the domestic sphere, the problems of supply (availability, quality, costs, interest or capacity of the enterprises) seem to be the most severe, and they are the object of a full range of fiscal and financial stimuli, in addition to other programmes, such as that aimed at financing imports of inputs with exports (for example in the automobile industry). In the external sphere, besides the recent slackening of the world economy there are considerable obstacles imposed by importers, which also tend to affect the subcontracting activity; however, the Generalized System of Preferences and the trade negotiations which Mexico has promoted in recent years give cause for some optimism.

The report emphasizes some factors which cause serious difficulties in the supply for export. On the one hand, Mexican industry is affected in general by problems of costs, quality, technology and the originality of designs, particularly in the most modern and dynamic sectors which compete on the international markets. On the other, Mexican industry has some backward features—in the metal-working branch, for example—which prevent it from participating more fully in trade, even within the Latin American Free Trade Association (LAFTA). Furthermore, although the Mexican subsidiaries of the transnational enterprises carry out their activity mainly in the more dynamic and modern industrial areas, they are oriented towards the domestic market, so that their export coefficients are generally low and very similar to those of the national enterprises. Finally, it is significant that some of the main programmes concerned with basic industries (steel, copper, fertilizers, paper and pulp, cement, petrochemicals, etc.) only give marginal consideration to exports, either because of commercial problems or because of restrictions connected with the

real or financial resources available. In certain areas, however, such as the capital goods sector, some exceptions are observable, thanks to the Government policy aimed at changing the restricted approach to the domestic market.

Desarrollo y política social en Centroamérica (Development and social policy in Central America). CEPAL/MEX/76/11, mimeographed version, Mexico City, 1976 (Spanish only).

The recent evolution of Central America presents some particular features which are in sharp contrast to the traditional characteristics of the area. The considerable diversification of the production bases, the strengthening of the State's commitments to development and the broadening of the ties of regional interdependence —among other factors— have changed the face of these societies. The changes have not been uniform, however, and have not had similar social projections. Indeed, it is rather the reverse, as some centuries-old factors (such as land ownership) still exert an influence alongside other more recent ones (such as the industrialization schemes), thus leading to an inequitable distribution of goods and services.

The central purpose of the document is to study the features and repercussions of these processes of expansion and social imbalance in Central America. The first section explores the different significations of development, stressing that its different facts —economic, political and social— are interrelated, although for analytical reasons it is convenient to distinguish between them. Special reference is made to certain characteristics of the Central American societies, such as the considerable degree of external dependence and the small scale and fragmented nature of the national markets.

The second chapter of the document reviews the main trends in population and in the extension of basic services (education, health, nutrition, housing, water and electrification). It notes that the rate of population growth remains high, except in Costa Rica, and that although the services have expanded, there are serious deficiencies in their distribution and quality.

The structure of income and some of the problems in the labour markets are considered jointly in the third part of the document, where it is concluded that there seems to be a selective distribution of income and opportunities in

Central America which favours the urban sectors and some rural sectors which have participated in economic modernization; marginality, however, is tending to become worse.

Special attention is paid to one of the most significant features of recent Central American development: the increasing intervention of the State in economic and social affairs. In addition to the institutional expansion of the State, new trends can be detected in public spending, which is beginning to show a greater awareness of social disequilibria.

The final part outlines some of the prospects lying ahead for Central American society, with emphasis on the positive social effects which could be generated by the strengthening of regional co-operation links: a possibility which has not yet been suitably exploited.

Daños causados por el terremoto de Guatemala y sus repercusiones sobre el desarrollo económico y social del país (Damage caused by the earthquake in Guatemala and its repercussions on the country's economic and social development). CEPAL/MEX/76/GUAT.1, mimeographed version, Mexico City, 1976, 52 pages (Spanish only).

This report was prepared in order to provide the member governments of CEPAL with information on the earthquakes which devastated Guatemala between 4 and 6 February 1976 —the third large-scale natural disaster in Central America during the last three years— and to propose to the international community some measures of assistance which would enable Guatemala to make more rapid progress in the work of reconstruction.

The first chapter describes the characteristics, origin and intensity of the earth movements and briefly outlines the first emergency action taken by the Government of Guatemala and the international community.

The second chapter presents an estimate of the magnitude of the damage, which affected the social sectors more than the directly productive sectors or the physical infrastructure. Thus, in addition to the total figure for loss of life (23 000 deaths), injuries (70 000) and homeless (over a million), it is necessary to take into account the considerable damage to housing and the social infrastructure of basic services (hospitals, schools, etc.), the cost of which was initially estimated at some 900

million dollars and later revised to over 1 000 million dollars. It is pointed out that the process of rehabilitation and reconstruction does not merely involve replacement of the losses to restore the country to the same conditions as existed before the earthquake, but a qualitative improvement which still further increases the investment required in the reconstruction programme.

The third chapter briefly examines the short-term repercussions of the earthquake on the Guatemalan economy, reaching the conclusions that, with external support under adequate conditions, the balance-of-payments situation and the financing of the public sector would remain manageable during the period 1976-1977, mainly because the Guatemalan production apparatus—particularly that linked to the exporting sector—was not greatly damaged. Reconstruction will help to raise the investment coefficient and absorb increasing contingents of labour, and this may provoke a resurgence of the inflationary pressures observed during the period 1974-1975.

Finally, in the fourth and last chapter some suggestions are made on the characteristics and scope of the financial and technical co-operation which Guatemala will need to confront the task of rehabilitation and reconstruction.

Condiciones de acceso de los bienes de capital al mercado en los países miembros de la ALALC (Conditions of access of capital goods to the market in the member countries of LAFTA). CEPAL/MEX/76/8, mimeographed version, Mexico City, 1976, 169 pages (Spanish only).

In order to advance towards a more diversified and dynamic industrial structure, the Government of Mexico is promoting a series of projects in the capital goods sector. Because of their technological characteristics, many of these goods should be able to find broader markets than those determined by the current and foreseeable demands of the Mexican market.

This was the point of departure of the document summarized here, which was prepared jointly by the CEPAL office in Mexico and *Nacional Financiera S.A.*, and was made sufficiently broad in scope to be useful for the other countries of the region too. The main questions which it attempts to answer are the

following: what are the levels of protection currently applied in each of the member countries of the Latin American Free Trade Association (LAFTA) for each of the principal types of capital goods, and what preferential treatment is granted to these goods, by virtue of tax concessions or the complementation agreements signed in LAFTA, if they are produced by one of the countries affiliated to the Association?

Despite the limitations of the document which are duly pointed out in it, interesting results are attained. Thus, attention is drawn to the great difference between the levels of protection granted to the capital goods sector of the different countries of LAFTA and to the fact that the greater the development of the sector—measured by its relative share in industrial production—the higher the degree of protection it enjoys.

The average tariffs currently applied to imports of capital goods, in descending order, are: Uruguay, 97 per cent; Argentina, 82 per cent; Brazil, 57 per cent; Peru, 54 per cent; Chile, 48 per cent; Paraguay, 34 per cent; Colombia, 31 per cent; Mexico, 27 per cent; Ecuador, 26 per cent; Bolivia, 21 per cent and Venezuela, 20 per cent.

All the countries, even those of intermediate and small size, give higher levels of protection to certain categories of products of lesser technical complexity, such as basic metals. In the more complex categories, the average protection is lower but it rises considerably in the countries which plan to produce them and therefore wish to protect them.

Although only a few preferences have been given to capital goods in LAFTA, this has nevertheless provided easier access to Latin American production. In some cases, however, this is due more to agreements between transnational enterprises which have plants located in different countries of the area. Much remains to be done in regulating and facilitating the conditions of access of Latin American production to the LAFTA market itself, by intensifying negotiations and improving the appropriate mechanisms.

The study notes that the complementation agreements signed within LAFTA in reality involve very little "complementation", since the concessions they give generally apply to the same products for the two or more countries which sign the agreement and therefore tend to generate greater competition. Furthermore, these agreements are

largely entered into at the instigation of transnational enterprises interested in establishing production plants in different Latin American countries with a view to meeting the regional demand. If this trend persists, no progress will be made towards attaining the specialized production which, in principle, should be the main objective of the agreements in question.

Because of the low average level of their general tariffs compared with the rest of the world, the concessions granted by Mexico, Bolivia, Ecuador and Venezuela, which often

bring the levels down to zero, do not appreciably stimulate the production of the other LAFTA countries. In contrast, although the regional tariffs deriving from the preferences granted by Argentina and Brazil rarely descend to zero, they do represent a reduction from generally very high levels compared with the rest of the world. This encourages buyers to acquire such products in the region, since such marked reductions can compensate for possible differences of quality compared with capital goods from the rest of the world.

NOTES AND COMMENTS

VISIT TO CEPAL HEADQUARTERS BY DR. HENRY KISSINGER, UNITED STATES SECRETARY OF STATE

On 9 June 1976, the headquarters of the Economic Commission for Latin America was visited by the United States Secretary of State, Dr. Henry Kissinger. The Executive Secretary of CEPAL, Mr. Enrique V. Iglesias, welcomed him with the following words:

"The staff of the Economic Commission for Latin America and myself cordially welcome you and your colleagues to this regional headquarters of the United Nations.

We of course feel highly honoured in this Latin American house by your visit—the first made by a Secretary of State of the United States, which has always been an active member of CEPAL since its creation almost three decades ago.

We consider this visit all the more important in view of the crucial changes taking place all over the world, which also require appropriate adjustments in the United Nations machinery, including that at the regional level, in order to facilitate a constructive dialogue and efforts at conciliation and negotiation instead of needless confrontation.

In welcoming you, we are also keenly aware of your tireless endeavours in the furtherance of peace in this increasingly interdependent yet still tense and divided world we live in. One cannot but be impressed by the courage and vision of many of the far-reaching changes you have initiated.

And last but certainly not least, we attach great significance to your repeated emphasis that peace cannot be the result only of political understanding but must also be solidly based on concerted action by all nations, rich and poor, to ensure the economic and social well-being of mankind.

In this connexion, we consider that the very interesting ideas you put forward at the Seventh Special Session of the United Nations General Assembly and in UNCTAD certainly merit careful consideration, as they reflect a positive approach to the common goals being sought by the international community.

CEPAL and its secretariat, as an integral part of the United Nations, must take full account of the interests of all member States within the universality and pluralist framework of the Organization.

But in addition—by mandate and vocation—it is primarily a regional thinking and

action centre at the service of Latin America, and since its inception it has pursued a two-fold objective: firstly, to help the Latin American countries in their economic and social development efforts, always keeping uppermost the awareness that development is not an end in itself but a means to dignify man and secure his well-being, and secondly, to promote a positive dialogue and co-operative action within Latin America as well as between this region and the rest of the world.

Your presence here, Mr. Secretary of State, and the opportunity to hear your views—even if very briefly—certainly constitute most encouraging incentives for us to continue our modest but persistent efforts to help translate United Nations principles and objectives into concerted action by all concerned, idealistic though this may sometimes appear to some.

We know that this process of maturation is difficult and that a long road still lies ahead of us, but we also know that—as you yourself have often stressed—the important thing is to take the first steps in full awareness of the urgent need to begin acting now lest it becomes almost impossible to do so later.

We thank you for your visit and cordially ask you to feel most welcome."

After thanking the Executive Secretary for his words of welcome, Dr. Kissinger made the following statement:

"I would like you and your distinguished staff to know that, while it is a meeting of the General Assembly of the Organization of American States that brings me to Santiago at this time, I value this opportunity to meet with you and to visit this renowned fountainhead of ideas.

You have much of which to be proud. You, Mr. Secretary, with all your well-known energy and wisdom, have followed and successfully built upon the work of your very capable predecessors, Prebisch, Mayobre and Quintana. These men, like you, were well known within and beyond our Hemisphere as statesmen. My colleagues and I have great respect for the work you have done and for the tremendous accomplishments of the Economic Commission for Latin America. This centre of study and action has done much to ignite the consciences of men everywhere to take on the challenges of economic development. Your approach is progressive and, especially because it is non-political, it is effective.

As is only to be expected, we have at times not seen eye-to-eye with regard to certain

problems or the prescriptions for dealing with them. But we have avoided ideological postures: our thinking and, I believe, yours have evolved. In the process we have moved closer together with respect to many, if not most, essentials. We have listened and learned as this institution has led the movement for economic integration among the developing countries of this Hemisphere. We have worked together on trade and development, and we have agreed with your shift in emphasis from import-substitution to export-oriented strategies.

The problem of economic development is not primarily a technical issue. It is profoundly a political and moral issue. It is not possible to build a world community which is divided between the rich and the poor. If we are to live in a world of peace and justice, all nations must have a sense of participation, and all nations must have the consciousness that the world community either takes into account their concerns or at least listens to their concerns. This is why we attach such extreme importance to the dialogue that is now taking place between the developed and developing nations, for regardless of the technical solutions we may find, the spirit we can help engender can contribute to a world of peace and to a sense of community. And this is why we are concerned when there are attitudes of confrontation or technical majorities, because it is the essence of an international structure that solutions cannot be imposed by one group or another, but that a consensus must be established in which all share. The nations of Latin America have a very special role to play in this process. They are among the most developed of the developing nations or among the least developed of the developed nations. They belong to the Organization of American States and they are tied to us—a country which has a great concern with security and global equilibrium. But they are also a part of other groupings of the so-called Third World, and they can, therefore, in important respects act as a bridge between the views of the different groups that exist in the world today.

In the field of development, the United States has offered important proposals for dealing with current international economic difficulties. At the Seventh Special Session of the United Nations General Assembly we put forth suggestions, and agreement was reached, on a number of measures designed to enhance economic security and to cope with the cycles

that, in the past, have devastated export earnings and undermined development. And we dealt with other issues relating to trade, technology and capital flows.

In Nairobi, we advocated a comprehensive plan for addressing major commodity issues and set forth additional proposals for dealing with technology and other requirements for development. Our proposal for the establishment of an International Resources Bank failed for reasons of an accidental majority. But I cannot scold every forum that I meet on this topic. I think we have made our point. The more fundamental problem I would like to put to this distinguished group is how to relate these general proposals for global development, which are important, with the special requirements of the Western Hemisphere. My colleagues and I are doing a great deal of thinking on how in a global context of development we can at the same time reflect the special ties, the special values and the particular institutions that have grown up in this Hemisphere, how we can avoid being caught between the extremes of dogmatic globalism and dogmatic regionalism. We favour regional integration of the Western Hemisphere or of the nations of Latin America, either in sub-regional groupings or in regional groupings, and we are going to give very serious study to how within a global framework we can spur the very special concerns for development of our old friends and associates in the Hemisphere. Today, at the meeting of the OAS General Assembly, I made some specific proposals of what can be done within the framework of existing legislation and within the discretion that our Executive has, but I also pointed out that at the special session on development that has been proposed by several members at the General Assembly and that we assume will take place next spring, the United States will be prepared to address the more fundamental questions that I am putting to my friends here: how to relate the global concerns for development with the regional concerns of the Western Hemisphere, because it would be wrong to waste the traditions of co-operation and the special relationships that have grown up in this Hemisphere. I am providing your Executive Secretary with a copy of the paper in which we made a series of comments and recommendations regarding co-operation for development and I hope that ECLA will find that it can play a role with regard to some of the arrangements we suggested on vital issues:

for example, on technology for development. We hope also that you will not feel yourself confined to the proposals that we have made and will feel free to offer your own suggestions. In looking at the record the danger that you will feel yourself confined by our proposals is minimal.

The nations of this Hemisphere are bound by historical and other special ties and interests. The United States consequently supported and

has been interested in the work of ECLA since its founding in 1948. I would also like to reciprocate the very warm words of the Secretary-General, whose dedication to the cause of peace we admire and whose indefatigable efforts in all areas of world problems we support. I wish you and the Executive Secretary the very best as you carry on your important work, and I would like to thank you for the very warm reception I have had here."

THIRTIETH ANNIVERSARY OF THE UNITED NATIONS¹

This new anniversary, which marks our entry into a new decade of existence, should not merely be an occasion for marking the passage of another year in the life of the Organization or holding a friendly little gathering. It should rather prompt us to look back down the path we have travelled and reaffirm, through a serene and responsible analysis of what has so far been achieved, the lasting validity of those noble ideals crystallized in 1945 in the Charter by the pioneers of San Francisco, some of whom are with us here today.

Thirty years ago, when the horror of years of terror and death had still not left our minds, a new collective ideal was born among the nations of the world, along with renewed faith in the destiny of mankind. It was summed up with sober beauty in the Preamble to the Charter:

"We the peoples of the United Nations, determined:

- to save succeeding generations from the scourge of war, which twice in our lifetime has brought untold sorrow to mankind, and
- to reaffirm faith in fundamental human rights, in the dignity and worth of the human person, in the equal rights of men and women and of nations large and small, and
- to establish conditions under which justice and respect for the obligations arising from

treaties and other sources of international law can be maintained, and
- to promote social progress and better standards of life in larger freedom".

It was in response to these broad concepts that the United Nations was set up three decades ago. Since then, a great deal of water has flowed under the bridges of the world.

The original handful of 51 nations, among which there were hardly any Asian or African countries, has now been transformed into a group of 142 States representing the peoples of all continents. The United Nations has thus made a big step towards universality. Over the years, however, the Organization has not only been increasing the number of its members but has also been modifying its functions and field of competence. With a flexibility perhaps undreamed of by its founders, its objectives have been broadened, its activities have been expanded, and the international dialogue has been institutionalized. As Kurt Waldheim, our Secretary-General, recently said: "The founders did not give us a detailed constitution, framed to take account only of the dominant problems of 1945. Instead, they gave us a framework of principles and objectives which has proved capable of adjustment, expansion, and development. Thus, as the world has been transformed politically, socially, and economically, so has the United Nations been able to respond to these new challenges and new priorities. This capacity for change has proved to be a deep strength of the United Nations".

In the course of the past three decades, the Organization has achieved successes and suffered failures: the joy of hopes fulfilled has been tinged with the bitter taste of occasional

¹Speech delivered by Mr. Enrique V. Iglesias, Executive Secretary of CEPAL, at the commemorative ceremony held at the headquarters of the Commission on 24 October 1975.

frustration. This is quite natural, as it is in any human venture.

When we look at the balance-sheet of these years, which I would have no hesitation in describing as highly positive, we should bear in mind that the United Nations is an organization made up of Governments, and its effectiveness therefore depends, in the final analysis, on the unification of political wills which it is possible to achieve and the tools and resources which Governments place at its disposal.

What really matters in this inevitable picture of mixed successes and failures, however, is the definite feeling that exists that a real advance has been made in this wide-ranging, imaginative venture, that maturity has been gained with the passage of time, and that the ideas which originally lay behind the Charter have been kept alive.

Those were years of extraordinary idealism. The terrible threats which there had been to the future of humanity had caused the world to unite, and out of the ruins of the war an ideal of peace was born.

Its realization was entrusted to a new organization—the United Nations—whose aims were very different from those which had inspired the disappointing experiment of the League of Nations.

Thus, whereas the League looked backwards and, in essence, attempted to restore the past and preserve the *status quo*, from the very outset the United Nations placed the emphasis on the future and on change.

Under this new approach, peace could not be the result of military or political alliances, as had been thought and attempted unsuccessfully up to that time. According to the Charter, future peace called for a collective, integrated and dynamic effort, and this common task should be based on a new concept of justice among people and among nations, implying respect for individual rights in all the corners of the earth and the need to share the fruits of progress and culture among all nations.

Has it failed?

Have the Organization and its member governments been capable of translating the great ideals of San Francisco into effective action? Have the conflicts of interests, the ideological clashes, or the struggle for power nullified their effectiveness? To put it bluntly, are there real grounds for the scepticism and

mistrust with which the Organization is viewed by some sectors of public opinion?

In order to answer these questions, we should turn our attention to the original great aims of the Charter. The first of these objectives was the preservation of peace.

Undoubtedly, this has not been fully achieved. But it is only right and fair to stress that for the first time in this century three decades have passed without a world confrontation. Admittedly there have been localized conflicts, some happily settled and others in the process of being so; we have known and survived the unpleasantnesses and dangers of the cold war; we have witnessed many international ideological confrontations which at times appeared to be dragging mankind towards the horror of total war. Yet during these thirty years the world has avoided a world conflagration.

Naturally, it cannot be claimed that the preservation of peace has been mainly or exclusively the result of United Nations action. What is certain, though, is that this outstanding achievement would have been much more difficult without the support of the world forum of the United Nations and without the sounding-board which it provides for the public opinion of the countries represented there. Moreover, at all times when the governments considered this to be necessary, the United Nations peace forces or the discreet offices of the Secretary-General have facilitated dialogues or helped to consolidate agreements.

Although the potential danger of a world conflict still persists, the many control mechanisms established by bilateral and multilateral diplomacy have put increasingly severe barriers in the way of irresponsible action, passion, or ambition.

In these three decades, while peace was being sought through mediation in conflicts, it was also being consolidated in other ways. The most significant of these is undoubtedly the *decolonization process*. Indeed, how could anyone ignore the vital role which the United Nations has played in the virtual elimination of the colonization process that existed prior to its establishment?

In our view, the presence today of dozens of young nations which have been born and continue to be born by virtue of the principles of the Charter is the living testimony of a historic achievement in the progress of mankind towards freedom, the self-determination of peoples, and peace among nations.

But it is in the sphere of *international co-operation* that the struggle for peace has had its biggest successes.

Much has been done in this field. The Organization's budgets as a whole assign over 90 per cent of expenditure to economic and social co-operation, and this covers the widest range of human activity imaginable: from action to overcome diseases that have scourged mankind from time immemorial to other action which has brought education and knowledge to millions of human beings, or has enabled the treasures of Abu Simbel to be saved; from co-operation designed to teach millions of farmers how to use up-to-date production methods, to measures regulating world transport and telecommunications.

The range of consultation and co-operation machinery, which is unprecedented in the history of mankind, has been placed at the service of the international community and particularly of the developing countries: among these latter, the Organization has made very special efforts to back up the development of young nations.

This great adventure of co-operation among peoples has been accompanied by two facts which I wish to bring out on this occasion because of their close connexion with our daily work.

First, we have acquired more knowledge about the complex processes which regulate the economic and social development of nations and we have helped to create public and political awareness of the need to act on them. In fact, it can fairly be said that the subject of development was originally brought on the world scene by the United Nations, and since then the Organization has systematically given it vitality and momentum.

The United Nations has also made valuable progress and decisive contributions in the establishment of a veritable code of conduct for governing international economic relations at a time of growing world interdependence.

The community of nations, in many forums and through lengthy negotiations and

slow processes of confrontation and dialogue, has worked out an international consensus on economic relations between the rich North and the poor South.

This is borne out by the recent results of the Seventh Special Session of the General Assembly on the building of a New International Economic Order. The agreements reached at that session clearly illustrate the enormous gap between the relative consensus of today and the divergent concepts, criteria and positions held by the industrial centres and the peripheral countries up to a few years ago.

These agreements were naturally not the result of generous or enlightened concession on the part of the rich countries, nor were they entirely the result of the chorus of complaints by the poor nations of the world. They were essentially the product of the persistent effort, at times confused and rhetorical, at others unnecessarily confrontational, carried out in the General Assembly, the Economic and Social Council and UNCTAD. It was through these negotiating processes, which are not always fully understood, that today's consensus was reached. And it was in institutions such as CEPAL and countless others of the United Nations family that the ideas on which it is based were to a large extent conceived and developed.

Another fundamental aspiration of the Charter was respect for human rights.

For the Charter, human dignity and worth are not purely philosophical concepts. They must rather be a basic principle in life which should guide human conduct. Every human being, whatever his origin, whatever his race, whatever his religion and wherever he may be, deserves respect. Paraphrasing the Bible, the Charter recognizes a fundamental and simple mainstay of peace, a condition without which this cannot fully exist: "Love thy neighbour as thyself".

What, indeed, would be the purpose of peace, if not to preserve the right to life, liberty and happiness, in sum, to approach the ideal of living without fear?

Looking towards the future: the great challenges of globalism and interdependence

When we analyse what has been achieved, there is room neither for complacency, nor for mere destructive criticism. While we are far from having reached all our goals, there can be no doubt that the advance has been in the direction indicated by the noble objectives of the Charter.

It is more instructive, however, to look towards the great questions facing mankind. Daily these impose the need for a universal dialogue and real agreement among all nations of the earth.

Growing economic interdependence is forcing all nations, large and small, rich and poor, to seek new relationships based on new principles of fair shares for all and equality of opportunity to accede to progress. That is why the advance towards a New International Economic Order begun in the last two special sessions of the General Assembly and the activities under way within the Organization are not only timely and urgent measures because of the crisis affecting the international economy; they are also –and much more fundamentally– unavoidable requirements for coexistence among nations.

The scope of the New Order, of course, goes well beyond economic agreements. In recent years there have been significant international efforts to tackle problems which were not part of the work of the Organization in the past and which can only be solved –let us not forget– through global agreements among all nations reached in a universal framework.

These include, for example, action to regulate and harmonize the interests of States in the use of the common heritage of all mankind; to protect the environment and lessen the aggression against Nature arising from various forms of modern technology or the uncontrolled growth of cities. They also include activities under way to preserve and make proper use of water, that most precious resource of this planet; the call for scientific and political agreements which should faithfully reflect the collective interest in research and in the creation of new technologies, particularly those so vital to the survival of the human species as nuclear technology, or those related

to genetics; collective watch over, research into and regulation of the planet's climate; and the dialogue to reach criteria and standards on the use of the atmosphere and the conquest of outer space. On another level, there is the work of the Organization to attract universal attention and encourage government action on such crucial problems as population growth and the creation of conditions which will guarantee the effective equality of women and men in rights, obligations and opportunities.

Two recent decisions, however, both reached in international fora, perhaps best serve to characterize the new sphere in which the Organization now moves. They are not mere exercises in rhetoric, but rather concrete and fundamental acts which will contribute to the attainment of greater international justice.

The first of these has been to concert efforts –made within FAO– to tackle the dramatic problem of world hunger. The historical agreement reached in this sense means that the nations of the world have decided to pool their efforts as regards food contributions and the constitution of buffer stocks of grains. According to the specific undertakings reached, the World Food Programme will handle food relief amounting to not less than 10 million tons of grains.

The other recent basic fact which I should like to call to mind is the progress made on the problem of the use of the sea and the continental shelf. This means, in effect, that the international community is taking decisive steps to ensure that the immeasurably vast riches which the oceans, seas and continental shelf contain will not be delivered up for appropriation by the most powerful, but will benefit all mankind. The machinery of international accord has thus been set in motion in order to achieve something which is both simple and transcendently important: namely, to prevent the 70 per cent of the earth's surface taken up by the seas and oceans from being submitted to the painful pillaging process of colonial exploitation which many lands underwent in the past.

The inescapable need for international dialogue and commitment

The principles which inspired the pioneers of San Francisco when they adopted the Charter are more valid today than ever before.

Today, as in the past, the consolidation of peace continues to be the basic objective. This will not be achieved merely through the political alliances of the powerful or the balance between tremendous forces of destruction. Lasting peace will only be achieved with the attainment of one and all of the basic objectives laid down in the Charter.

It is true that the danger of a global conflict today appears further removed than it did a little while ago, but it is no smaller. This is particularly evident when one recalls that the nations of the world at the present time spend more than 300 000 million dollars annually on the production and acquisition of armaments; painful though it be to recall the fact, this figure far exceeds that spent on education or health.

The present and future responsibilities of this Organization are thus great indeed. But as I have already said, it should be recalled that it is above all an organization of Governments. The success which the United Nations may have in ensuring its noble initial objectives depends in the final analysis on what degree of commitment its members decide they are prepared to take on in defending the collective interest, and the instruments and means which they put at the disposition of the Organization.

As the Secretary-General, Mr. Kurt Waldheim, recently said: "At root, the United Nations represents a striving after great human goals which are common to all peoples, whatever their race, ideology, language, or

political systems. Such a striving depends essentially less upon systems or organizations than on individuals. The United Nations certainly reflects many human deficiencies, and it is as capable of error and misjudgement as any other human institution. But I also know that it reflects the great human qualities, of which integrity, perseverance, patience, and compassion are, I believe, the most important".

The acceptance of the equality of all States in this magnificent multitude of races, languages, religions and nationalities which makes up the membership of the General Assembly is the Organization's greatest asset. Its great challenge is the acceptance by all of the right to disagree.

These two principles are not easily accepted as part of the international commitment. This means, then, that we must look beyond the imperfections from which each and every State suffers and follow the moral guidance of the Charter.

In the search for this ethical conscience, we, the staff of the Organization, have a special responsibility —to commit ourselves to the basic objectives of the Charter with total respect for the plurality of the Organization. More than ever we believe in international dialogue, tolerance and co-operation. This is the essence of our Organization, which today has reached its third decade of existence.

The world cannot face the collective suicide of a third world war in order to create another United Nations Organization. We have no alternative but to do our best to improve the one we have.

OSCAR VARSAVSKY

Oscar Varsavsky passed away in Buenos Aires at the end of 1976. He had close contacts with many staff members of CEPAL and ILPES, and on several occasions served as an adviser to the Institute.

With his high ideals, his sound and extensive knowledge, his complete lack of arrogance in explaining his thinking, his outright rejection of dogmatism and his extraordinarily fertile and creative mind, he had a far-reaching influence on his colleagues. Those who had the privilege of enjoying his friendship saw how his way of life was moulded on the principles he defended. He was in many respects a kind of moral conscience of those who knew him best.

Varsavsky's intellectual talent gains even more in stature when placed next to his exceptional human worth. The idea of adopting a calculating approach to the positions that needed to be taken in his daily life was just as alien to him as an excessive sense of rank and an ambition for power. His absolute frankness, in praise as well as criticism, reflected a completely honest and whole personality. Beyond any doubt, his genuine modesty and the generous way in which he scattered his ideas bore witness to a person of very superior qualities.

He was in profound disagreement with certain aspects of the prevailing forms of social organization in our countries. His critical spirit, combined with his creativeness, led him to study many factors of social organization from an overall viewpoint, and to suggest alternative development styles or country projects, as he did for Argentina. In the country projects, some central aspects of the forms of social organization were analysed, and his concern extended to such widely different and substantive fields as social participation and solidarity, the security and rights of future generations, political activities and the freedom of individuals, together with novel interpretations of the function of production, the enterprise, capital formation, productivity and other factors which his inexhaustible imagination and integrative capacity brought into his rigorous reasoning.

The depth of his concern led him to reconsider many questions about which conventional thinking tends to create the myth that they are hard and fast truths. His approaches contain a reinterpretation of the usual economic concepts along unfamiliar lines: they pose new problems, cause some of the old ones to disappear, and put forward somewhat unorthodox solutions for others.

The extent of his concerns did not daunt him, since he always put his faith in team work. For this reason the publications by groups directed by him or inspired by his work far outnumber the books bearing his signature alone. Just as he was always critical of many of the present uses made of knowledge, he did not hesitate to take full advantage of its potential. Thus, he devised the method of numerical experimentation, an exceedingly useful mathematical tool for considering simultaneously and on a more specific plane such numerous and heterogeneous aspects of social organization as those we have mentioned.

Although he was a university professor of mathematics and physics and a man of vast scientific culture, he never believed that the essential aspects of existing knowledge were so difficult as to be beyond the grasp of the broad masses. He had immense confidence in the feasibility of full participation by the people and believed that existing knowledge and progress opened the way for discussions in

which, by raising the issues very clearly and not obscuring the essential aspects with unnecessary complications, the basis for a better society could be laid.

He believed in the need to plan human activities in terms of their contribution to the actual construction of a society whose characteristics had been previously defined. Such a definition would entail intensive prior work aimed at suggesting some alternatives to the existing order. In the face of the false technico-economic feeling that such alternatives did not exist, he stressed the importance for the social groups of being able to visualize possibilities. His works, the fruit of his impressive labour, are an example of the consistency between his words and his action. The fact is that, as he says in one of his recent books, "all this is done not as an academic exercise but because of an irresistible desire to live in a better society and to do something towards making this more possible".

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