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Dependence, interdependence and development*

Raúl Prebisch

This posthumously published work by Prebisch poses the following question: What is ECLAC's attitude on the topics of dependence, interdependence and development? In order to answer this question, Prebisch analyses a number of issues.

First of all, he examines the role of the periphery and the weight of the dominant centres in various periods, taking into account some variables which help in the interpretation of the resulting development. An issue of great importance in this respect is that of the internal faults of peripheral development, including superficial imitation of external models and the low priority given to technical development.

Secondly, Prebisch emphasizes the need to analyse peripheral capitalism within the context of a global theory of capitalist development, eschewing the danger of lapsing into intellectual dependence in this respect. Import substitution, he notes, was not invented by technocrats, but was a response to changing international conditions: there was never any bias against exports in ECLAC's thinking. The deterioration in the terms of trade, for its part, was due to technical change and its differential impact on industrial goods and primary commodities.

In the last part of the article, Prebisch analyses various recipes formulated in the centres for the developing countries but not applied in the industrial countries and emphasizes the need to achieve new world trading arrangements which will permit the countries of the periphery to advance in their development process.

*This article is based on a lecture delivered by Dr. Prebisch at the Economic Development Centre of London University in 1986. It is to be published by Basil Blackwell, together with other articles, in a book entitled The State of Development Economics.

Centre-periphery and dependence

Among the burning questions of the 1960s were dependence theories and concern about the problems—longstanding, of course—which they brought to the fore. In retrospect, now that the ferment of ideas has settled, two broad approaches are discernible. One of these, corresponding to more traditional thinking, identified the problem of dependence with the well-known hegemony of the stronger over the weaker countries; the dependence relation was seen as unilateral and invariably negative, and was held responsible for all the ills of the periphery. The other school of thought took for granted the existence and the important implications of the said hegemony, and sought to advance a step farther by shedding light on its foundations and on its complex manifestations as they figured in the centre-periphery concept. Thus, for example, one of the points emphasized was that the nature of the downward trend of the terms of trade clearly illustrated the disadvantageous position of the periphery. Later, the centre-periphery concept gained much from the valuable contributions of sociologists, political scientists and economists who took pains to point out internal phenomena inherent to the periphery which strengthened dependence relations. In this connection, special mention should be made of the work of Fernando Cardoso and Enzo Faletto carried out under the aegis of ECLAC.

What is the nature of ECLAC's thinking on this subject now, enriched as it has been by the aforesaid contributions? A reply to this question should be preceded by a review of the major changes in the situation that have taken place.

First I will examine the part played by the periphery in capitalist development in pre-industrialization days. By the very dynamics of the centres, the periphery had been left on the
sidelines of the industrializing process, in its appendicular role of producer and exporter of primary commodities. The benefits of the increase in productivity that technical progress in the centres brought in its train did not spread to the rest of the world through a fall in the prices of manufactured goods, but were felt in the centres themselves, with the augmentation of income, of demand for goods and services and of capital accumulation wherewith to satisfy it. Demand for primary goods produced by the periphery also expanded in this process, generally very fast, and the corresponding income increments were transferred back to the centres for the purchase of manufactured goods.

This pattern began to crack up during the First World War. But the decisive impulse to industrialization stemmed mainly from the crisis of the 1930s. It was not a doctrinaire requirement, but was imposed by unfavourable circumstances which likewise made import substitution a matter of necessity. In those days nobody could have dreamed of exporting manufactures to the centres; nor could anyone have done so during the Second World War or the difficult years of the postwar period. Later, however, these were succeeded by propitious times for the export of manufactures. Some of the countries of the region made good use of the offered opportunities, whereas others, such as Argentina, were unable to exploit them with sufficient drive and steadfastness of purpose.

Because the periphery had not participated in industrialization from the start, large sectors of the population had been left out of the development process, in consequence of the dynamics of the centres and the mutations and diversification of demand. The periphery's demand for manufactured goods tends to increase rapidly, whereas its primary exports follow a relatively slow upward trend. There is an enormous disparity between the central and the peripheral countries as regards income from demand for imports. Hence the significance of exporting manufactures. As it happens, however, the manufactures that the periphery is in a position to export are precisely those for which the growth of demand in the centres is comparatively slow. This is why the centres not only display reluctance to do away with their protectionism, but rather tend to accentuate it. The great liberalization of trade brought about by the Kennedy and Tokyo rounds of negotiations barely touched the periphery, since the goods covered were those for which demand gains impetus from the technological innovations introduced in the centres. The conclusion may therefore be reached that once again, the dynamics of the centres does not afford anything like the same benefit to the periphery as to the centres themselves. I shall revert to this point later.

I stated at the outset that the dependence controversy had enriched the centre-periphery concept. Perhaps its most important contribution has been the incorporation of power relations in the concept in question. In the course of the appendicular development of the periphery, the dominant groups in the centres had linked up with their counterparts in the periphery; there was a certain community of interests between these social groups, although the subordinate position of those in the periphery was manifest. The hegemony of the centres, and especially of the main dynamic centre, was based on their economic, financial and technological superiority, on the fragmentation of the periphery, on the trend towards imbalance in trade, and on the aforesaid subordination or dependence, call it what you will.

The superiority of the centres continued to make itself apparent during the industrialization of the periphery, and to take new forms. To the siphoning-off of income from the enterprises producing and exporting primary goods and importing manufactures, prior to industrialization, as well as from the public utility enterprises, was added the drainage of income through the transnational corporations, as they came to play a more and more active part in industrialization, often sheltering behind an exaggerated degree of protection. I do not, of course, exclude banking and financial corporations. Thus a change took place in the composition of the dominant peripheral groups linked up with the centres and a web of relations favourable to their economic, political and strategic interests was woven.

These are transparent or subtle ways in which the hegemonic weight of the centres makes itself felt. And when the periphery reacts against this dependence and jeopardizes the interests concerned, a whole constellation of
dominant elements in the centres loses no time in marshalling its forces to apply penal measures.

A distinction, not always presented in clear and definite terms, should be drawn between these dependence phenomena and the nature of those centre-periphery relations, referred to above, which are the consequence of the time lag in the integral development of the periphery, of its economic, financial and technological inferiority and of its economic fragmentation.

There is yet another body of ideas respecting dependence, among whose most significant expressions is the contention that the high level of living in the centres is basically due to systematic exploitation of the periphery, through diverse forms of transfer of income to the centres, and through the deterioration of the terms of trade to the disadvantage of the periphery's primary products. In the past there have undoubtedly been elements of exploitation to which ECLAC has repeatedly called attention. But this conclusion as to the peripheral origin of the centres' well-being overlooks the influence of the giant strides made by the latter in technology.

It is therefore not surprising that some have gone so far as to recommend delinking from the centres, a more or less drastic severance of relations with them, so that the periphery, by taking full advantage of its own potentialities, can give decisive impetus to its development.

It is true that the centres, and above all the main dynamic centre of capitalism, have concerned themselves with the development of the periphery only in so far as it has served their own interests, and generally without looking very far ahead. They have sought neither the development of the periphery in social depth nor formulas for a convergence of interests.

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It will take an immense and enlightened effort, a tenacious and protracted impulse of its own, to lift a peripheral country into a different category. This was what took place in the United States, until that country came to be the main dynamic centre. And in this way too Japan has become an exceptionally thriving centre, despite its lack of natural resources, other than the power of its mind and will.

Their endeavours were not directed towards cutting off relations with the centres, but towards cultivating them intelligently in the interests of their own development.

As a general rule, the above-mentioned school of thought has laid very little stress on the internal flaws in peripheral development. Just as the periphery displays a persistent trend towards external disequilibrium, so likewise it exhibits an internal dynamic imbalance between the rate of expenditure and the rate of accumulation of reproductive capital, that is, the capital indispensable for the multiplication of employment, productivity and total income in the economy. This imbalance brings to light, especially in the Latin American region of the periphery, a fundamental defect.

With a lower average productivity than that of the centres, we hurry to imitate their ways of life, to boost demand for diversified goods and services. Thus a privileged consumer society has grown up in those social strata that are best able to appropriate the fruits of technical progress, to the obvious detriment of reproductive capital investment. And in the course of the structural changes in society, with the development of the distributive power of the labour force, its private and social consumption gradually increased as well, while at the same time the State considerably raised its own civil and military expenditure.

These outlays do not entail any containment of the expenditure of the well-to-do strata, constantly stimulated as it is by technological innovations, but are superadded to their privileged consumer spending. Sooner or later this adversely affects the rate of reproductive capital accumulation, with the consequent ill-effects on the tempo of development and on distributive equity. And this dynamic imbalance inevitably ends in a new type of inflation which cannot be effectively combated by monetary restriction which, moreover, is counterproductive by reason of its economic, social and political consequences.

The fact that all these forms of expenditure—private and social, civil and military—constitute a manifest imitation of the centres might induce the theorists of the above-mentioned stream of opinion to blame dependence likewise for the weakening of the rate of accumulation and for its inflationary effects: a conclusion which would imply carrying delinking to an extreme hardly conceivable in the praxis of development.
II

Intellectual dependence

I also want to refer to another conspicuous symptom of dependence. I mean the unconditional subordination of some circles in the periphery to theories worked out in the centres. I do not mean to deny the value of these theories, but I maintain that generally speaking they are not in keeping with the peripheral situation that I have attempted to describe in a number of studies. It is not surprising, therefore, that the concept of periphery should be regarded as a mere change of name, or that it should be attributed to the design of the countries concerned to formulate a theory of their own which differs from the thinking of the centres. Nothing of the sort: the phenomena of peripheral capitalism must be inserted in a global theory of capitalist development. I feel it is very important to clear up this point in order to dispel misconceptions.

When the force of international circumstances first began to drive the periphery into becoming industrialized, an attack was launched in the centres against the very idea of this deliberate industrialization, based on protection and on import substitution. It is worth while to recall this, for despite the time that has gone by, substitution is still being attacked as a sort of monstrosity spawned by ECLAC.

I remember how in the early 1950s Professor Jacob Viner took up the cudgels against us in the University of Rio de Janeiro, attributing to us the fantastic idea that agriculture was symbolic of poverty. Shortly afterwards I had an opportunity of retorting. How could I uphold such an idea if my country, Argentina, had attained, thanks to agriculture, an extremely high level of per capita income at the beginning of the present century? Instead of becoming industrialized, Professor Viner said, what ought to be done was to introduce technical progress into agricultural activities, in order to step up productivity and expand exports. I agree, said I in my turn, but technical progress in agriculture would leave redundant manpower. And it was for industry, as for other activities that develop alongside it, to perform, among other roles, that of absorbing this redundant labour force at rising levels of productivity. Otherwise, there was a risk of expanding primary exports beyond what was called for by the growth of international demand, with the consequent deterioration of the terms of trade. Protection of industry would help to rechannel capital and labour from agricultural to industrial activities, counteracting the downward trend in question. The fact that there has been exaggeration and abuse of protection does not invalidate this thesis. Although this has indeed happened, and in certain cases — and once again I will cite Argentina — it has been prejudicial to agriculture and exports.

The theoretical defence of an appropriate degree of protection was very simple. In view of the excessively low income-elasticity of international demand for agricultural products — and also for primary products in general — the expansion of exports of such goods was apt to depress upon their relative prices. Protection was desirable if the increase in costs for a country turned out to be less than the losses caused by the fall in prices of agricultural products.

But that was not the end of the argument. Imports had to be replaced by domestic production and, at the same time, the export of manufactures had to be undertaken and encouraged by incentives similar to those accorded to import substitution for the home market. I believe that ECLAC was among the first to defend this thesis in a study presented to the governments a quarter of a century ago. The tenor of the relevant passage was as follows:

The need for import substitution and for consequent protection of substitution activities has been unavoidable. But there has been a failure to boost exports to the same extent. There has been discrimination in favour of industrial substitution and against exports, mainly industrial exports. The ideal policy would have been to promote exports in order to place them on an equal footing again with substitution activities, which does not necessarily mean equal incentives.
This aspect is sufficiently important to merit examination; in a nutshell, it is the following. Limitation of external demand for primary exports makes it necessary to devote part of the increase in the factors of production to substitution activities. As their productivity is lower than in the industrial centres, they need to be given a certain subsidy in the form of tariff protection. Yet there would be possibilities of using a smaller subsidy to develop new industrial export activities, whereby a greater quantity of industrial goods could be obtained through trade than those that could be manufactured by substitution production.

By subsidizing substitution production rather than production intended for new exports (industrial or primary), export opportunities have been lost which, had they been properly used, would have reduced the scope of substitution policy or made more rapid economic growth possible.  

ECLAC emphasized the fact that industrialization was asymmetrical: besides being based on a generally excessive degree of protection, it failed to provide the appropriate stimulus to encourage exports of manufactures. And yet it was repeatedly affirmed that ECLAC ignored the need to combine import substitution and exports of manufactures.

And now that I have mentioned Professor Viner, I will also refer to Professor Bela Balassa, who has always reproached us with having overlooked the need to bring about that combination. And what is more serious, in a recent report he ascribes to this supposed one-sidedness of ECLAC all the ills of Latin American development.  

Obviously he has had only a nodding acquaintance with our work, based on second-hand and third-hand quotations, in general mutilated and incomplete. For instance, he refers to a paragraph in the 1961 study of mine to which I alluded above, and in which I denounced exorbitant protection, but does not include my recommendation that exports should be combined with import substitution in broader markets than those of the individual countries concerned. Nevertheless, I am glad that Professor Balassa has at last come to share my opinion. And I hope that in the study which he is preparing on Latin American development he will remedy his omission.

If I allude to this case it is not only because of the influence that Professor Balassa wields in the World Bank, for which he acts in an advisory capacity, but also because he is representative of certain attitudes that would appear to reflect displeasure at our—at ECLAC's—endeavours to interpret peripheral development phenomena in the light of a criterion of our own. Generally speaking, no genuine effort is made to understand ideas before attacking them. No recognition has been accorded to our determination to free ourselves from a persistent intellectual dependence which has serious effects on development praxis.

Since the earliest days of ECLAC—to adduce an important example—no objective consideration has been given to our theoretical reasons for maintaining that, in consequence of technical progress, there was a trend towards deterioration of the terms of trade. We have said so already: if the increase in productivity raised production above demand, such a downward trend would occur. Why did not the same thing happen in respect of manufactured goods? Simply because when deterioration supervened, the flexibility of industry was conducive to a redeployment of capital and labour in response to the diversified demand that technological innovations always bring in their train. But where agricultural products are concerned, this does not take place, except to a limited degree. It was contended, then, that deterioration was a mere illusion. The price of diversified goods rose because of the improvement in their quality and efficiency; if a farmer had to pay a higher price for a tractor, it was on that account. However, deterioration does not occur when for similar reasons the price of a machine used by industrial producers goes up. It does not occur, because diversification (together with other factors) pre-

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See R. Prebisch, "Notes on trade from the standpoint of the periphery", CEPAL Review No. 28 (LC/G.1392), Santiago, Chile, April 1986.
vents prices of industrial goods as a whole from falling as productivity rises. Herein lies the fundamental difference between agricultural and industrial prices, which is of so much importance for the development of the periphery.

As regards other primary products, there are cases in which, in addition to the adverse effects of the aforesaid trend, demand is also weakened as a result of the technological innovations which replace a natural product by new industrial goods. Technical progress thus operates adversely at both extremes. Adversely for the periphery, but not for the centres.

The peripheral countries do not have the same possibilities of counteracting the trend towards deterioration as the United States do, by restricting production of grain, or as the European Economic Community does, by flooding the world market with the production surpluses caused by the fixing of high prices, to the serious detriment of other producer countries, especially those of the periphery. And nevertheless, critics of the deterioration theory still go on insisting that it is a fallacy.

This double standard of judgement is by no means uncommon. We are seeing it now applied to protection. The periphery has been impugned on account of the protection it accords to the production of manufactures. There is no denying, of course, that its costs, at least to begin with, are higher than those incurred in the centres, because of the latter’s economic and technical superiority. Why not devalue, is the cry, instead of resorting to measures that represent arbitrary interference with market laws? Devaluation, however, would mean, cheapening the prices of primary products which have come to be internationally competitive, and this, which, while benefiting the centres, has unfavourable effects upon the development of the periphery.

By the centres, then, as already said, we have been persistently counselled to export manufactures instead of undertaking import substitution. Some peripheral countries have followed the advice, acquiring the necessary technology and exporting goods which, thanks to that acquisition and to lower wages, compete favourably with goods from the centres. These then resort to protection. Why are they not advised to devaluate in order to cope with the problem? I think commonsense considerations prevail: among others, the realization that such a measure brings down the prices of their competitive exports, with the ensuing loss of some of the fruits of their technical progress.

The effects of all this intellectual dependence have generally been very serious, owing to the academic authority that is usually attributed to the advocates of certain ways of thinking. The damage is still fresh that has been done by the so-called Chicago theories in several Latin American countries, especially my own. All the more so when these theories become operative, as in the conspicuous case of the International Monetary Fund. This institution took several years to recognize that external imbalances stemmed not only from an inappropriate internal monetary expansion, but also from international factors, as we in ECLAC have long been maintaining. And in face of these disequilibria, a squeeze on economic activity is recommended in order to reduce imports, since respect for market laws disown equences the pursuit of a selective import policy. The economic, social and political effects of such a squeeze do not seem to have entered into the picture as far as the Fund is concerned, much less import substitution policy, which it has resolutely impugned.

Very serious, too, have been the consequences of resorting to monetary contraction as a means of combat inflation: an efficacious formula in those bygone days of capitalism when the labour force bowed to market laws and the State took a laissez faire line with respect to income distribution. To avoid, or at least attenuate, such extreme monetarism, an indispensable requisite would be an income policy which accorded capital accumulation the importance it deserves. The Fund did once mention this idea, but unfortunately it would seem to have continued to adhere to its inveterate orthodoxy.

Another measure now advocated is the reduction of imports in order to cope with the payment of interest on the external debt, very greatly to the detriment of internal activity and employment. It must be recognized that the Fund is not responsible for the debt. It was simply ignored when the large banks, guided by the profit-making motives, availed themselves
of the plentiful resources of the Eurodollar market to issue loans to countries that took those resources without even an elementary degree of foresight. There was a convergence of irresponsibilities on both sides, except in so far as an attempt was made to face up to the petroleum shock. The private banks loudly asserted the worth of their own wisdom and of market laws in respect of resource allocation, and made much of their superiority over intergovernmental institutions.

It is playing with fire to shy away from a political solution for the debt problem. To all the foregoing have been added the deterioration of the terms of trade and the increasing difficulties of expanding exports in present circumstances. The Baker Plan signified an acknowledgement of the political character of the problem. But it can be only a beginning, as long as astronomically high interest rates continue to prevail. The debt has accentuated our countries' dependence. The financial factor has always been outstandingly important, and now it is still more so in countries whose capital accumulation has plummeted, above all because of the inflationary crisis and debt service payments, and which are going to need foreign capital. Hence the necessity of a political arrangement which, besides resolving the problem, will pave the way for a selective investment policy.

The foregoing considerations bring us to the subject of conditionality. Conditionality is a requisite of international credit operations. But what sort of conditionality? This question must be posed now that the World Bank is talking of conditionality too. True, it has not been observed by those private banks I have just mentioned. Conditionality ought not to consecrate our dependence upon the thinking of the centres; on the contrary, its content should be discussed with the participation of independent economists from the periphery, until a reasonable body of ideas were arrived at to guide the action of the above-mentioned institutions, as well as that of the Inter-American Development Bank.

Similarly, conditionality could have constructive meaning only in the framework of a clear-cut policy of economic expansion. And that necessitates highly significant changes. International financial co-operation, however liberal and enlightened it might be, would not have lasting positive effects on the peripheral countries unless these took effective measures to correct the tendency for the growth rate of expenditure to outstrip that of reproductive investment. Nor would these effects be fully brought about unless measures were likewise taken to correct the trend towards external disequilibrium. Herein lies the key role of the centres, especially the main dynamic centre.

III

Dependence and interdependence

I have spoken of dependence. But not of interdependence. We are all interdependent but some are less interdependent than others, as in the case of Orwell's equality in which some are less equal than others.

Interdependence may be positive or negative. And in it the role of the dynamic centre is of primordial importance. A vigorous and sustained expansion of this latter would spread its positive effects over the rest of the world, and especially in the countries of the periphery, if they made up their minds to respond energetically to the stimulus thus provided. But otherwise, if the growth of the centre were weak and fluctuating, a disturbing case of negative interdependence would occur.

I do not say that a peripheral country would have no means of attenuating the adverse consequences, but it would not be able to counteract them altogether. And in so far as, whatever its intentions, it was unable to expand its exports at an adequate pace, it would find itself obliged to push its import substitution policy farther than would otherwise have been necessary.

Would this import substitution policy be prejudicial to the centres? It would merely
change the composition, not the quantity of imports from them, the growth of which would have to keep pace with the rate of development. It is an interesting case of asymmetry which is seldom clearly understood. The imbalance, as we have already explained, is basically due to the disparity caused by the relatively slow growth rate of primary exports as compared with that of imports of diversified goods, which is relatively rapid. If, then, a peripheral country substitutes domestic production for certain imports it implies increasing others. Contrariwise, when it is the main centre, primarily, that does the same thing and restricts its imports, it deprives the peripheral countries of the means of continuing to import as much as or more than before, with the consequent slackening of the rate of development.

Readily understandable, therefore, is the adverse significance of the waning rate of development of the centres in these days, aggravated as it is by the recrudescence of an inveterate protectionism. Multilateral formulas will have to be devised which will enable the peripheral countries to share, without disturbances, in the increase in the centres' consumption, as long as their persistent unemployment situation precludes measures of more far-reaching scope. Be that as it may: could it be contended that this would provide a solution in depth for the problem of disequilibrium?

Those of us who remain unconvinced must continue insisting upon the need to combine exports with import substitution. It is to be hoped that understanding on the part of the centres and emancipation of the periphery from its intellectual dependence will facilitate the application of this policy.

Import substitution will impel our countries to undertake new lines of production which will call for technological co-operation from the advanced centres. This will open up a promising field for exploitation of a technology which the centres have already developed, and which they are improving upon by virtue of new forward strides in technology.

An indispensable condition for the success of this policy would be for those new lines of production, those changes in its structure, to have access to broader markets than those of the individual countries. We have hammered at the centres' doors to obtain a favourable reception for our exports. But we have not been able to promote them among ourselves. Here too formulas must be found that are more effective than those conceived a quarter of a century ago.

For the first time in capitalist development, the periphery — passive hitherto — could exert dynamic influence on the centres, always providing that new forms of co-operation were arrived at. Expanding exports of goods based on a less advanced technology than that of the centres and exchanging them for more complex goods would mean that both parties obtained well-recognized advantages with the consequent increase in productivity. While exploitation in the periphery of a technology that is being constantly improved upon in the centres would also offer undeniable reciprocal benefits.

It has been said elsewhere that the centres have concerned themselves with peripheral development only just so far as it suited their interests. No one can blame them. We ought to blame ourselves for not having been able to shake off the intellectual dependence which has blindfolded us to our own interests. We have, however, come to a stage in our relations with the centres at which there are great possibilities that a convergence of interests may be reached.

These converging interests, however, are not only economic, but also political, and of vital importance. Our Latin American countries — to continue confining ourselves to them — are passing through an acute structural crisis whose implications are plain to be seen. To the problem of the broad masses of human beings that have been relegated to the bottom of the social structure at very precarious income levels, is now superadded the question of unemployment and a

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4 Aníbal Pinto, the eminent Latin American economist who has contributed so much to the evolution of ECLAC's ideas, in a study published under the title "La apertura al exterior en la América Latina", in El Trimestre Económico, No. 187, Mexico City, July-September 1980, expressed the opinion that Latin America, if it were to keep up until the year 2000 the growth rate of 6.4% recorded between the years 1955 and 1974, would have to double its imports every 10 years. Thus it is not a question of reducing imports but of increasing them and making the appropriate changes in their composition, in accordance with the demands of development.
growing distributive struggle, which inevitably leads to inflation and in some instances to hyper-inflation. The life horizon of the new generations is narrowing and their dynamic elements have a profound sense of frustration which sows potent seeds of resentment and rebellion. The problem, however, is not so much one of foreign ideologies, but one of a hotbed of violence of every kind. The political orientation is of course important. But much more so is the inherent likelihood of a perturbation of social coexistence and of the democratization process.

The hegemonic power of the United States is a fact which it is not in our hands to alter. It can be exerted in two ways: one is to allow Latin American events to drift along and confront the consequent disturbances with penal measures or the use of force; the alternative is to pursue a far-sighted and enlightened policy of positive interdependence. There is no other choice.