

CEPAL

Review

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Notes and explanation of symbols

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

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

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

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

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

A point (.) is used to indicate decimals.

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

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

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

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

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

Latin America on the threshold of the 1980s

*Enrique V. Iglesias**

With the end of the 1970s at hand, by way of drawing up a general balance the author sketches the main features of Latin American development in the recent past and notes the main challenges which the region will have to face in the years to come. He begins by recognizing that since the war, and especially during the 1960s and the beginning of the present decade, Latin America achieved vigorous economic growth, but he stresses that this did not succeed in solving some of the most serious social problems, while it also brought with it a growing internationalization of the economies of the region, with a consequent increase in their external vulnerability. Furthermore, towards the middle of the 1970s there was a reversal of the expansive cycle as a result of the flagging performance of the central economies, the changes in the international prices of some goods, especially oil, and the internal difficulties faced by the national development patterns themselves.

In the light of this situation, he holds that redoubled efforts must be made to ensure that in the coming years the countries move towards an equitable, dynamic and independent form of development. The achievement of these objectives involves, in turn, the capacity to overcome three fundamental challenges: improving the social irradiation of economic growth, speeding up its rate and making it more independent.

After the presentation of this framework of analysis, the major part of the paper is devoted to consideration of the requisites imposed by these objectives, the potentiality of the region for achieving them, and some of the most suitable strategies for doing so. The article concludes with some reflections in which the writer sums up his views and stresses the need for a systematic reappraisal of the ideas about the economic and social development of the region in order to adapt them to a rapidly changing context.

*Executive Secretary of CEPAL.

Introduction

As on other occasions, I should like to take this opportunity to express some thoughts on the economic and social situation of the region, in the light of our observation of the many diverse facets of Latin American reality.

This meeting is taking place at a special moment in our history, as one decade draws to a close and another dawns. These moments of transition have a particular attraction in the historical evolution of our societies, for they are suitable occasions for exercises of introspection which enable us, as we look at the recent past, to put forward some hypotheses concerning the major problems and challenges which will face us in the 1980s. An exercise of this kind is particularly timely and necessary at a moment when the governments of the region must turn to the task of laying the foundations of what is to be the international development strategy for the forthcoming decade, to be discussed by the United Nations General Assembly in 1980.

This kind of analysis, however, is inherently fraught with difficulties, for obvious reasons. In the first place, we are living today under the sign of change and uncertainty in all spheres. This is clearly visible in the international economic situation and the violent changes in the political, economic and social settings which affect the very values on which we believed that post-war civilization was firmly based. These changes transcend the confines of economics, and call into question in various ways man's present and continued existence on this planet.

Furthermore, the growing interdependence among the nations of the globe—another sign of our times—means that no-one can escape the effects of these changes, and our region has certainly felt their impact especially strongly. One thing is sure, namely that following a period of extraordinary prosperity and confidence in a stable future, which began some thirty years ago, we have entered a dangerous period in which feelings of insecurity and anxiety about the future prevail at every level.

It is therefore a hazardous business to venture on hypotheses about the probable course of future events. All forecasts which

go beyond the short term may become quite unrealistic very shortly after being formulated.

It is equally difficult to formulate hypotheses about the future of Latin America, again for a number of reasons. Perhaps the most important of these is the course followed by the world economy, which has such a direct effect on the development of the countries of the region. Equally important are the great changes which have taken place in Latin America in recent years. New political situations, new economic experiences and new social factors have emerged, revealing profound changes which in many respects are often in keeping with those which have occurred at the world level.

This has meant that the common traits of the region have been overlaid by increasingly clear and unmitigated disparities between some of our countries, stemming partly from their varying geographic and demographic size, their different economic and social structures, or the particular way in which they are linked with the world economy. This explains why, despite the common denominators, it is more difficult now than previously to generalize about the problems of the region. Always risky, such generalizations have now become more dangerous than ever.

Despite these obstacles, however, reflection about the immediate past and possible future scenarios for the region as a whole is

particularly necessary and opportune. The speed with which events are taking place in the modern world often obliges us to give priority to immediate problems. Thus, by force of circumstance, there is a growing tendency at all levels to focus on the short term, a tendency which should be overcome from time to time, however, in order to draw on the wealth of regional experience for guidelines to orient future action.

This, indeed, has been the role of CEPAL over its many years of existence. We therefore feel bound, on occasions such as this, to express our thoughts to the governments of the region — in all honesty, and fully aware of the limitations of the undertaking— in order to let them know our views on the fundamental problems of the day and the great challenges of the approaching decade.

It is in this spirit that I wish to make a number of comments on three major areas of concern:

—Firstly, the main lessons to be learned from the economic and social evolution of the 1970s.

—Secondly, the balance-sheet of the achievements and shortcomings of the process of change observed in the region in recent decades.

—Lastly, what we consider to be the main challenges of the near future.

I

The 1970s: culmination of a cycle, interruption and advance towards the unknown

A. *The turnaround of the 1970s*

Anyone looking at the main feature of the world economic situation in the 1970s must conclude that the decade will be remembered for two fundamental aspects: the culmination of a cycle of unprecedented progress which began in the 1950s, and the profound change of direction in this trend which occurred in the middle of the 1970s.

If, looking back, the period between 1970 and 1973/1974 represented the euphoric culmination of the post-war cycle of expansion, the succeeding years saw the interruption of that process and the beginning of a stage of substantial adjustments which are still continuing, and whose complexity, intensity and duration make it impossible to discern as yet the nature of the new stage which may take shape after this interregnum.

Some tend to view the 1973 rise in oil prices as the decisive element in this uneven evolution. However, it is important not to exaggerate its importance, or to ignore other significant factors, for in reality this rise in prices was superimposed, in the central economies, on a variety of monetary and financial upheavals which date from the final years of the previous decade, and which emerged clearly in 1971.

Even at that time the embryonic symptoms of "stagflation" had already been diagnosed, and deep thought was being given to the possible consequence of the policies designed to remedy it by decreasing growth rates.¹ Thus the "oil trauma" should be regarded more as the spark which precipitated and aggravated a worsening situation than as the sole or basic cause of it.

The fact is that, for a complex set of reasons, a significant break took place in a trend of progress and economic growth which had begun two and a half decades previously and which had begun to seem indefinite.

If the problem is viewed from the standpoint of our region, a similar evolution can be identified in the economic field: the culmination of a dynamic cycle of growth in the product at the beginning of the decade, followed by a decline in the expansionary cycle in the second half of the period.

The first essential element in the decline in the region's former buoyant trend was, of course, *the performance of the central economies*. The document presented to the CEGAN meeting by CEPAL records with startling clarity how growth in the region has followed the ups and downs in the central countries, and particularly the downward tendency starting in 1974/1975 (see figure 1).

Notwithstanding slight differences in trajectory, intensity and performance in specific cases—to which I shall refer below—this parallelism confirms the long-standing conception of the reflex character of the cyclical movements at the periphery—a fact which

¹See, for example, CEPAL, *Economic Survey of Latin America, 1971* (United Nations publication: Sales N.º E.73.II.C.1).

we must not forget in our current discussions on interdependence.

At the same time, one can also see with clarity the impact of the *realignment of international prices, and particularly the rise in the price of petroleum*. The latter has had very different effects depending on the country in question: so much so that it has necessitated a systematic differentiation between countries which export fuels and the remaining non-fuel-exporting countries—the majority—which have had to face up to different degrees of dependence on imports.

It is worth while emphasizing that the serious problems of the latter have not led to conflicts or animosity *vis-à-vis* the former, the fundamental reason being that the affected countries have not forgotten two very important aspects of the matter.

Firstly, it is almost beyond doubt that no other primary commodity—in this case non-renewable—had suffered such a damaging deterioration in its price in the post-war period. In fact, as is demonstrated in a recent CEPAL publication, the real price of petroleum dropped by almost half between 1950/1951 and 1973, before it was readjusted.² This process might well be regarded as a clear demonstration of the historical short-sightedness of the traditional policy on raw materials and its consequences. In that context the following statement by the President of the European Economic Community, Mr. Roy Jenkins, is telling:

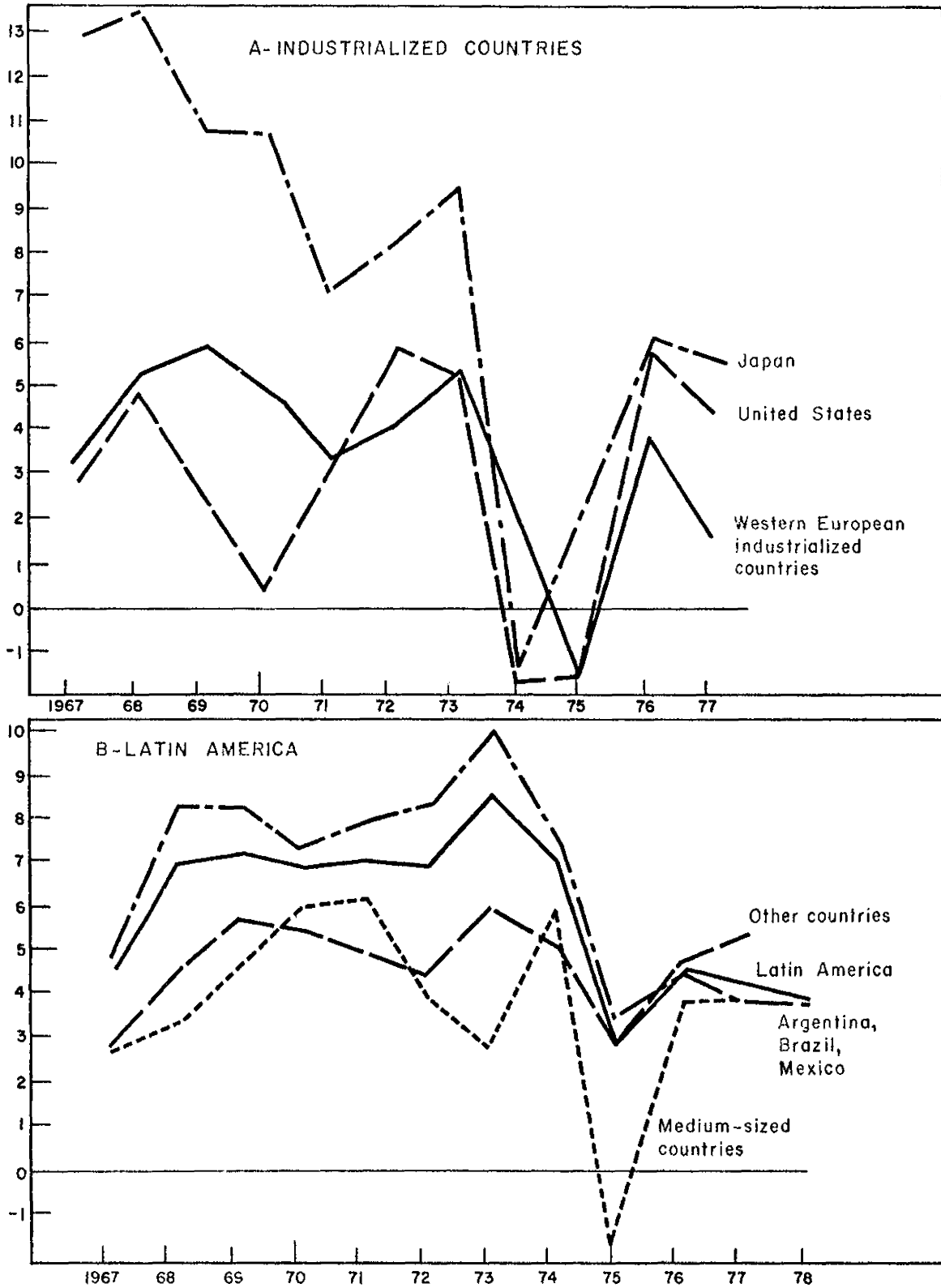
"For far too long the industrialized world assumed that it had a divine right to indefinite supplies of cheap energy. We finally seem to be learning from our mistakes, although the learning process is still too slow."³

Secondly, leaving aside possible reservations concerning the form of the price readjustment and the use made of the increased revenue, the affected countries could not but appreciate the potential implications of joint

²See J. W. Mullen, *World oil prices: prospects and implications for energy policy-makers in Latin America's oil-deficit countries*. Cuadernos de la CEPAL, Santiago, 1978.

³*Europe and the Developing World*, speech delivered to the Overseas Development Institute in London on 8 March 1979.

Figure 1
 GROWTH RATES OF THE MAIN INDUSTRIALIZED ECONOMIES
 AND OF LATIN AMERICA
(Annual percentage growth of the gross domestic product at constant prices)



action in favour of an adequate return for their commodity exports.

Finally, it is also clear that the upsets of the recent period are linked with *the inherent characteristics of national forms of development and the policies adopted to deal with them*. Despite the favourable climate for expansion which prevailed until 1973/1974 in Latin America, one cannot forget that even then many countries were encountering serious difficulties and uncertainty concerning the continuation of the process of transformations in production and the form of that process, especially as regards its social impact. Although it had specific features in each country, this situation was repeated both in the larger economies and in the medium-sized and smaller economies.

In this way the particular problems posed by the international economic situation were added to the specific problems of each country and were either exacerbated or alleviated depending on the countries' degree of vulnerability and the capacity of national policies to deal with them.

B. *The pressures of the conjuncture: new faces for old problems*

The upheaval in the middle of the decade took place against this background, and economic policies had to face, in addition to the traditional challenges, the more pressing problems arising from the international economic situation.

On the one hand, the countries most affected by the situation were obliged to tackle simultaneously problems on their external accounts, the repercussions of inflation, and their depressive consequences for production activity, employment and income distribution. The policies differed according to the countries, but all of them had to take dramatic steps, combining and re-ordering their defensive policies in very different ways. The three-way choice between growth rates, external borrowing and the degree of inflation was as frequent as it was painful, and old problems reappeared which the region thought it had overcome in the euphoria of the beginning of the decade.

Secondly, the countries which benefited

from a rise in their foreign currency earnings had to cope with the task of assimilating the additional resources in such a way as to ensure maximum impact on development and minimum effect on inflation. Their position was more favourable than that of the former, but it undoubtedly put the tools of economic policy to the test.

It would be mistaken to liken this crisis of the mid-1970s to previous crises, for two reasons which, it seems to us, should be underlined with particular emphasis in order to describe the new situation correctly.

(a) The '*international financial permissiveness*' which, as a result of the unprecedented abundance of financial resources arising from the oil surpluses and the crisis in the industrial centres, made it possible to moderate the effects of the payments imbalances and postpone many of the costs of the adjustment in international prices. Of course, this also led to considerable borrowing, which by the end of 1978 was estimated at about US\$ 100 billion for the region as a whole.

This financial permissiveness was a completely new factor in the historical experience both of the region and of the world as a whole. While in most cases the balance-of-payments crisis did not have a dramatic impact on internal development, it did make it necessary to adjust growth rates and incur substantial loans to which we shall refer again below.

(b) The region's '*new capacity to defend its interests*', which manifested itself in many ways. There is no doubt that vital importance was assumed by the progress achieved in previous decades in the broadening and diversification of the structure of production: that is to say, industrialization in its widest sense. In this regard, and with reference to the countries which best managed to cope with the setbacks produced by the economic situation, a recent report submitted to the Group of 24 points out very correctly that:

"...Their capacity for adjustment was substantial because of earlier progress that they had made towards the diversification of the domestic economy in general and of the structure of exports in particular."⁴

⁴UNDP/UNCTAD, *The Balance of Payments Adjust-*

On the other hand, due recognition should also be given to the high degree of maturity and flexibility achieved by national economic policies as a result of the greater experience acquired in managing the economy at both the public and private levels.

As a result, adjustment policies of greater or lesser scope were introduced in the different countries; a high rate of expansion of exports, particularly non-traditional exports, was maintained; and high levels were attained in trade within Latin America, which functioned as an anti-cyclical factor at a time of weakness in international markets.

No less significant for the region was the marked capacity to secure resources from private financial markets and the continuation of a high rate of direct foreign investment by the transnational corporations, as is indicated by recent secretariat studies.

The combination of plentiful external financing and the improvement in the defence capacity of the economies meant that although in the majority of the Latin American countries the growth rates of the product decreased, they did not do so as much as might have been expected in view of the crisis in the central economies.

The cost that this implied in terms of indebtedness has already been mentioned, but it was certainly not the only one. In social matters there were large-scale setbacks resulting from the policies of readjustment and also from the rate of inflation, which regained momentum in many countries. Both these types of costs had regressive effects on the poorer sectors and on rates of investment.

C. The external factor conditioning the immediate prospects: the evolution of the central economies

It is clear from several points of view that the immediate prospects of the regional situation will be strongly influenced, in the case of the great majority of the countries of the region, by the behaviour of the international economy, which in turn is basically determined by the

behaviour of the central economies, i.e., by the recovery of their growth rate and the attainment of acceptable levels of price stability and equilibrium in their balance of payments.

This is not the place to attempt to analyse the significance and the projections of the present weak level of activity of the industrialized countries, on the subject of which thousands of pages have been written in recent years. It is, however, both necessary and possible to highlight some aspects of vital interest to our region and to the Third World in general.

Some mistaken analogies have now been dispelled, such as the attempt to characterize the present crisis by evoking the Great Depression of the 1930s or the assumption made that this crisis was yet another of the transient upsets of the post-war period. Neither is the case.

Instead, the predominant view is that a deep-seated, difficult and lasting readjustment is taking place at the level of the central economies and the relations between them, on the one hand, and their links with the rest of the world on the other.

As far as the first element is concerned, the contradictory features of this crisis spawned by the economic system of the industrial market economy countries are much in evidence.

In addition to the elements which are common to all crises—decline of private investment, reduction of real rates of profits, increase in unemployment, growth of idle installed capacity—there are others such as active and persistent inflation, which represents a notable contrast to the situations of deflation typical of such conjunctures in the past. The well-known scenario of “stagflation” has created a dilemma which is too much for the Keynesian therapies used to solve the problem on other occasions and overwhelms them completely: any effort to secure growth through traditional policies appears to be frustrated by the activation of inflationary pressures, while policies directed at reducing such pressures tend to aggravate the slowing down of production.

Although the disequilibria in the external

accounts have played a substantial role in some countries, it is equally true that the same dilemmas also occur in countries with surpluses, and this contradictory situation constitutes another of the seemingly insoluble problems raised by the impotence of the policies so feverishly sought or attempted.

What are the options available in the light of the immediate prospects of the international conjuncture?

Some main options—which are not necessarily mutually exclusive in all aspects—may be deduced from the variety of analyses and opinions on the short- and medium-term prospects of the present situation.

The first is that the situation of the last few years will continue its precarious existence, with recurring ups and downs in the priority assigned to and the successes and failures achieved in the reactivation of growth and the control of inflation and external disequilibria.

The second is that the obstacles to the more rapid growth of the production process and of external trade and financial transactions will get worse, opening the way for more clearly restrictive policies and a situation at least resembling that of a traditional or “classical” crisis.

The third possibility—and certainly the most favourable—is that the present crisis will culminate in a transition towards a more favourable scenario in which the central economies will succeed in making the necessary structural and institutional adjustments, and that this will facilitate new forms of insertion in external trade and better opportunities for the development of the periphery.

This option reminds us of the lucid definition given by our fondly remembered master, José Medina Echavarría, who said that in the strict etymological sense a crisis should be understood as a certain moment in the evolution of a system which shows sufficient signs of fluctuation and upheaval to indicate a state of transition, but which does not exclude either the system’s strengthening and recovery or its final breakdown and ruin.

Let us adopt the relatively optimistic hypothesis that we are living in a period of readjustments which will later evolve into a broader and more favourable course for the world economy.

It seems reasonable to suppose that even in such a case *the transition will involve some years of risks and sacrifices which will be very different for countries of the periphery like those of Latin America*. These risks will perhaps be more serious than those experienced in the last part of the present decade, and it is consequently essential to prepare for tackling and overcoming them.

The first risk arises out of the continuing situation of slow growth and persistent inflation in the central countries. This stands in the way of the necessary growth of our exports and makes imports continually more expensive. This general effect becomes worse in proportion as the industrial countries resort to policies which aim at the reduction of growth and trade rather than their necessary expansion through the structural adjustments required in their domestic economies.

In this respect it is of interest to recall some recent statements. At a meeting of the Group of 24 held in March this year, the *communiqué* issued by the Ministers present expressed dismay at the proliferation of trade restrictions in the developed countries. Another forum carrying considerable weight—the Interim Committee of the Board of Governors on the International Monetary System—announced that since its last analysis of the world economic situation in September 1978 there had been some worsening of the prospects for economic growth in the industrial countries, increasing inflation, a slow rate of expansion in international trade and a tendency in some countries to resort to protectionist measures.

These developments in external conditions are already being reflected in the economies of the countries of the region, although with notable differences between one country and another: not only between the oil-exporting countries and the rest but also within each group.

Thus, it can easily be seen that, despite the efforts made, the deficits on current account still stand at very high levels compared with the beginning of the decade, while there has been a continuous increase in the amounts of indebtedness in respect of private credit, which has constituted the bulk of the net inflow of capital (see table 1).

Table 1

LATIN AMERICA: BALANCE ON CURRENT ACCOUNT AND NET CAPITAL INFLOW

(Millions of dollars)

	Balance on current account				Net capital inflow			
	1970	1975	1977	1978 ^a	1970	1975	1977	1978 ^a
<i>Latin America</i>	-3 103	-14 046	-10 361	-14 622	4 660	15 011	14 694	21 583
Oil-exporting countries	-272	2 047	-2 362	-5 034	358	1 041	2 795	3 568
Non-oil-exporting countries	-2 831	-16 093	-7 999	-9 588	4 302	13 970	11 899	18 015

Source: CEPAL, on the basis of official data.

^aPreliminary figures.

In global terms, the situation does not appear alarming at this stage in the light of such current relations as the ratio of payments of interest and amortization on the external debt, plus remittances of profits, to the value of exports, but—exceptions apart—it is nonetheless true that there is good reason to be concerned that these trends may continue.

The second risk lies in the fact that the relatively abundant supply of external credit cannot be considered a prop on which it will be possible to rely indefinitely. This is so because the high liquidity of the market and the easy access to it are the result of exceptional conditions which can hardly continue in the future, quite apart from the fact that the terms and costs of such credit are frequently not in keeping with the requirements of development financing.

This means that we must recognize that the chances of continued use of international credit by the debtor countries necessarily depend on their ability to rectify the basic imbalances in their external accounts by taking the positive approach of increasing and diversifying their exports rather than severely restricting their purchases abroad.

As is well known, this second option would

also harm the industrialized economies by weakening or eliminating one of the factors which have stimulated their shaky economic growth in recent years: namely, the demand stemming from their sales to the periphery.

The third risk, as we already noted, is the impact of the present situation of the central economies on the region's growth rate and on inflationary pressures.

While the region is today better able to defend itself than in the past, it would face a much more severe challenge if the restrictive effects stemming from the central economies were to continue for a protracted period.

The picture is even gloomier if one considers the potential inflation. Although in 1977 and 1978 the rate of price increases declined in comparison with the high levels of earlier years, it is nevertheless true that inflation continues to pose difficult problems of control and management in a sizeable number of countries which have considerable weight in the regional total. The picture is therefore very unfavourable as regards the objective of keeping up the growth rate, and in addition it involves sacrifices and social inequalities which hinder the concerted determination required to advance towards a solution.

II

The great challenges of the coming decade

The basic question which emerges as we stand on the threshold of a new decade is what major challenges Latin America will face during the next ten years.

If an adequate answer is to be given to this question, the analysis of the main features of the economic conjuncture in recent years is not enough. A longer retrospective view is also required, to enable us to make an appraisal of the economic and social evolution of the region in the context of a long-term historical perspective.

This appraisal would lead to the following main conclusions:

1. *Since the war, and particularly during the 1960s and the early years of the present decade, the region as a whole—with exceptions which this is not the moment to analyse—achieved vigorous development of its forces of production.*

This development was analysed in some detail in previous presentations by the Executive Secretariat, so that only its most essential features need to be summed up here. These were, firstly, the sustained growth of the Latin American economy, which meant that in 1975 the joint product of the region had increased fivefold since 1950; secondly, the growth and diversification of Latin American exports, which continued even through the recent recession in the world economy; and lastly, the improvement of the capacity for handling economic policy observable in the Latin American countries, to which I referred, earlier.

2. *This definite substantial material progress, however, was not able to solve some of Latin America's most acute and serious social problems.* Modernization and progress, in fact, only benefited certain strata of society. Others, particularly the great masses, remained outside this progress or only received its benefits marginally. Owing to this basic feature of the development style which tended to prevail in the majority of the region's economies, the number of people affected by critical poverty

continued to be intolerably high, unemployment and particularly underemployment did not decrease significantly, and some social indicators improved only slowly or even showed signs of deterioration.

The development of the last thirty years was thus marked by a basic ambivalence. While on the one hand it revealed the region's capacity for increasing its material output at a fairly high rate, on the other it reflected a flagrant inability to distribute fairly the results of this more rapid material progress. It is this essential ambivalence in the development style which explains the contrast between the optimistic conclusions which may be drawn from the evolution of some conventional economic indicators, such as those referring to the growth rate of the product, exports or international reserves, and the sometimes discouraging conclusions arising out of certain social indicators which show that in many countries of the region acute problems of malnutrition, poverty, illiteracy and underemployment continue to exist. In some cases their solution is desperately slow, and in others it is even more distressing to note that there has actually been a worsening of the situation.

3. *These features of internal economic change were accompanied by an increasing internationalization of the Latin American economies which strengthened the links between their development processes and changes in the world economy.*

The process of internationalization represented a new dynamic growth factor for certain countries but also involved a new and perilous vulnerability. The latter took shape with particular clarity when, in the middle of the present decade, the great growth cycle of the world economy which had begun early in the 1950s was interrupted and the trend towards a liberalization of international trade was simultaneously paralysed. In recent years, as a result of these closer links with the exterior, the rates and forms of growth of the central countries have become basic conditioning factors of the

rate of internal development of many of our economies.

The relative importance of the three basic characteristics of Latin American development which I have just mentioned has, of course, varied greatly in the different countries of the region. All the same, these three basic features which sum up the achievements, shortcomings and vulnerable points of the development process in the last 30 years are repeated to some extent in the experience of the great majority of our economies and become evident when their evolution is viewed from the perspective of the last few years of this decade.

What we consider to be the three fundamental challenges which the countries of Latin America will have to face in the next decade thus emerge very clearly and can be expressed in the form of three questions:

(1) Is it possible to improve the social spread of the development style which predominates in the region?

(2) Is it possible also to maintain and if possible speed up the rate of economic growth?

(3) Is it possible to design defence mecha-

nisms against the instability and uncertainty which characterize the present world scenario, so as to reduce the effects of the new external vulnerability of the Latin American development process?

An affirmative answer to each of these questions would mean that in the next decade the region can indeed progress towards *fair, dynamic and autonomous development*.

I should now like to go on to make some brief remarks on the possibilities of and requisites for achieving each of these three basic objectives.

A. THE FIRST CHALLENGE AND REQUIREMENT: BROADENING THE SOCIAL IMPACT OF GROWTH

As I mentioned earlier, it is a widely accepted fact that the dynamic growth of the region in the post-war period bypassed, in relative or absolute terms, a sizeable part of the population.

I do not intend to dwell on this topic, but I think it is worth recalling that a recent CEPAL study, covering six countries which account for

Table 2

ESTIMATES OF THE INCIDENCE OF EXTREME POVERTY IN SOME LATIN AMERICAN COUNTRIES AROUND 1970^a

Country	Percentage of households below the poverty line			Percentage of households below the indigence line		
	Urban	Rural	National	Urban	Rural	National
Argentina	5	19	8	1	1	1
Brazil	35	73	49	15	42	25
Chile	12	25	17	3	11	6
Colombia	38	54	45	14	23	18
Costa Rica	15	30	24	5	7	6
Honduras	40	75	65	15	57	45
Mexico	20	49	34	6	18	12
Peru	28	68	50	8	39	25
Uruguay	10	4
Venezuela	20	36	25	6	19	10
Latin America	26	62	40	10	34	19

Source: Oscar Altimir, *La dimensión de la pobreza en América Latina*, E/CEPAL/L.180, 1978, p. 81.

^aThe ten countries considered account for 84% of the population of Latin America.

70% of the population and an equal proportion of the gross product of Latin America, found that in those countries per capita income rose by 26% in the period 1960-1970, a figure which is certainly satisfactory. Only 10% of this growth, however, benefited those who were below a given poverty line in 1960, while 60% of it was absorbed by the richest 20% of the population. Thus, *in absolute terms the 40% of the population who were poor in 1960 increased their per capita income by only 20 dollars between then and 1970*. Furthermore, according to the latest available data, in 1970 about 40% of the Latin American population suffered from extreme poverty and almost half of these could be considered indigent. Although the incidence of poverty varied enormously from country to country, as may be seen from table 2, this percentage means that in 1970 the poor of the region numbered almost 110 million, of whom 54 million were indigent.

With all the limitations involved in making a projection, and merely in order to be able to visualize the urgency of the changes that must be made in the forms of development which have so far characterized Latin America, it may be noted that if recent trends continue, *by the year 2000 the poor of our region will have increased in absolute figures, although they will represent a smaller proportion of the total population*. And what is more serious, the income gap between rich and poor will have increased alarmingly: a fact which runs counter to basic moral principles, has no justification in economics and constitutes an evident threat to social coexistence.

The other fact of capital importance to which I should like to refer is that unquestionably *most of the managing cadres* — in government, professional and intellectual circles, political parties and basic institutions such as churches, the armed forces, trade unions and business associations — *agree on the urgent need to tackle this specific problem with the utmost priority*. This implies that there are few people who still believe that a dynamic growth process will suffice for the problem to solve itself.

Naturally enough, there are differences, sometimes profound, in the diagnoses and remedies suggested or adopted, but this overall

consensus is certainly of fundamental importance, for the collective awakening to the problem is not only a new development but also the prime and most essential condition for beginning to solve it.

The nature of the challenge facing us is certainly very complex, since without losing sight of the growth objective, which I will discuss later, we must find a means of achieving social justice; without renouncing the modernization of society we must give preferential treatment to the groups which have not yet benefited from technological progress; and without neglecting the excellence necessary in the training of certain groups in our communities, we must broaden and improve the system of opportunities and rewards in such a way as to secure the active involvement of large groups in Latin American society who are still excluded from the decisions which directly affect their living conditions.

1. *The size of the social challenges*

One factor closely linked with the situations of critical poverty encountered in the region is that of *demographic trends*. The projections made by CELADE indicate that although there will be a slight drop in the population growth rate from 1980 onwards, in the remainder of this century the Latin American population will increase by 75% (see table 3). At the same time, migration from the countryside to the towns will continue, especially in the countries where the percentage of the population living in rural areas remains very high, and where the incidence of critical poverty is greatest. All this will increase the pressures on services and physical space in the urban zones.

Furthermore, due to changes in the age structure of the population, the proportion of the total population represented by persons of active age will increase, and this, combined with higher rates of participation by women, will generate *an increase in the labour force* estimated at an annual average of nearly 3%, with the total rising from 170 million in 1975 to 345 million at the end of the century.

A number of studies of the region show that if the current style of development continues unchanged, the growth rate needed to prevent

Table 3

LATIN AMERICA: TOTAL POPULATION, BY COUNTRIES
(In thousands of inhabitants at mid-year)

	1950	1978	2000
<i>Latin America</i>	160 271	344 168	601 247
Argentina	17 150	26 395	32 861
Bahamas	79	220	330
Barbados	211	249	285
Bolivia	2 703	5 285	9 299
Brazil	52 901	119 477	212 507
Chile	6 091	10 732	14 934
Colombia	11 597	25 614	42 441
Costa Rica	958	2 111	3 377
Cuba	5 858	9 718	12 717
Dominican Republic	2 361	5 653	9 333
Ecuador	3 307	7 543	14 596
El Salvador	1 940	4 524	8 708
Guatemala	2 962	6 839	12 739
Guyana	423	846	1 256
Haiti	3 097	5 534	9 860
Honduras	1 401	3 439	6 978
Jamaica	1 403	2 115	2 726
Mexico	26 606	65 421	132 244
Nicaragua	1 109	2 559	5 154
Panama	825	1 808	2 823
Paraguay	1 371	2 888	5 274
Peru	7 832	16 821	29 468
Suriname	215	461	904
Trinidad and Tobago	632	1 041	1 280
Uruguay	2 194	2 886	3 448
Venezuela	5 145	13 989	25 705

Source: CELADE, *Boletín Demográfico*, Año XII, N.º 23, Santiago, Chile, January 1979.

a rise in current unemployment levels would be well above the rates achieved by most of the countries of the region in recent decades—rates which were actually the highest ever recorded.

The rapid growth of the labour force certainly represents an important challenge to the capacity for job creation of the countries of the region, and this challenge increases still further if it is recalled that it will also be necessary to increase the productivity and incomes of those who are currently vegetating in backward activities or are suffering from different forms of underemployment. In this latter respect, the estimates of the International Labour Office show that underemployment affects nearly 30% of the labour force. In short,

the problem is not only one of reducing unemployment but also of absorbing underemployment so as to ensure opportunities for productive and well-remunerated work for the entire labour force.

As will be understood, however, there are other social challenges which must urgently be dealt with: education, for example. Frequent reference is made to the major advances achieved here, but the shortcomings which still exist are overlooked.

It is a fact that considerable progress has been made in increasing the access of the population to the educational system. Between 1960 and 1975, the coverage of primary education doubled in absolute terms, secondary enrolment increased five-fold and enrolment

in higher education increased more than six-fold. It is also true, however, that despite the substantial effort made, illiteracy in a considerable number of countries of the region was still very high in 1970, while the average educational level of the labour force was still low and the proportion of workers without schooling was very high (see table 4). This last fact is particularly important since, as may be observed from recent CEPAL studies, the great majority of heads of households in situations of poverty have three years of schooling or less. It may also be noted that the incidence of poverty drops drastically when the head of the household has completed full primary education.

Table 4

LATIN AMERICA: EDUCATIONAL
INDICATORS OF THE LABOUR FORCE
AROUND 1970

Country	Average level of education of the economically active population (years of schooling)	Proportion of the economically active population without schooling (percentage)
Argentina	7.2	4.0
Brazil	3.1	36.0
Chile	5.8	8.2
Colombia	3.9	21.6
Costa Rica	4.8	10.8
Honduras	2.5	42.5
Mexico	3.5	27.1
Panama	5.2	17.1
Peru	4.5	19.3
Uruguay	5.7	4.9
Venezuela	3.6	...

Source: Data taken from the CEPAL/UNICEF project on social stratification and mobility in Latin America, 1975.

The foregoing is a reflection of the fact that the proportion of students who complete the primary cycle in Latin America is still very low although there are substantial differences between countries. A study of 18 countries shows that *around 1975 less than 50% of the students who had enrolled in primary education 6 years previously had completed the cycle, while more than half the drop-outs were in the first three years of schooling* and thus ran a great

risk of becoming illiterates from lack of practice.

From another standpoint the tendency towards a predominantly urban labour force and the increasing numbers of persons graduating from the educational systems mean that new job-seekers come up against a labour market which offers fewer opportunities than are required at nearly all levels, and this creates insecurity and frustration, both among young people with little education and those who have succeeded in completing their secondary education. Indeed, in some countries this situation is emerging even among graduates from higher education, who are not succeeding in finding jobs in keeping with their training and aspirations.

2. *Mission: possible!*

Although these and other related facts give some idea of the vast size of the tasks to be face, I am convinced that these are not insuperable.

The economic growth of the region in recent decades, the noteworthy progress in technical knowledge, and the incorporation of increasingly large numbers of professionals trained in the management of public affairs constitute a group of factors which, united with a firm political will, may well remedy the social inadequacies that cause us so much concern. My optimism is thus not purely rhetorical.

Recent studies on the problem show that the additional income which would have been required around 1970 to bring the income of the poor groups up to the estimated minimum for covering the basic overall consumption budget was equivalent to approximately 6% of the total disposable income of Latin American households or 12% of the disposable income of the richest 10% of the population. From another standpoint, it would have represented about 22% of total public expenditure for the region as a whole.

These values, of course, hide wide variations between countries, where the deficit expressed as a proportion of total personal income ranged from 0.6% to 20%, while as a proportion of public expenditure it varied between 3% and over 100%.

These relationships between the mag-

nitude of the problem and the amount of national income or total disposable household income clearly shows that when a point has been reached, as has happened in Latin America, where average per capita income is four times the figure corresponding to the poverty line, the eradication of poverty appears as an economically feasible task.⁵

If the problem is examined from the standpoint of some basic deficiencies, much the same conclusions are reached.

(a) It is estimated that between one-third and two-fifths of the population of Latin America suffer from nutritional deficiencies since their calorie consumption is below the minimum requirements laid down by specialized international agencies. Taking as a reference the cost of the basket of foodstuffs used to determine the poverty line, it is estimated that Latin America's nutritional deficit represents between 1 and 2.5% of the regional gross product;

(b) As regards the educational deficit it is estimated that the additional cost of providing six years of primary schooling for the future cohorts would amount to somewhere between 0.3 and 0.5% of the region's gross domestic product, while the additional expenditure required to finance an adequate health system would absorb 1 to 1.5% of the regional gross product;

(c) Finally, with respect to housing, it is assumed that about 1% of the gross national product would have to be transferred to the poorest families in order for their expenditure on housing to equal that of families whose income is equal to the poverty line.

In short, to solve those deficits would involve reassigning income amounting to between 3.3 and 5.5% of the regional total, which does not seem too ambitious an objective.

Obviously, however, it is not a question here of merely transferring income from one destination to another, or from the rich to the poor. After the financial transfer—and the difficulties which by its very nature this invol-

ves—real and perhaps bigger and more complex obstacles arise. The operation really requires the transformation of some structural profiles and, in the final analysis, of the mode of operation of the economic, social and political system. Only thus can the existing distribution patterns be permanently altered in a context of adequate productive dynamism which will guarantee higher real incomes on a stable basis for the poorer groups, without jeopardizing economic growth to the point of frustrating the income distribution attempt.

It is not surprising, therefore, that the consideration of these problems should have opened an active discussions on the nature of the policies and expedients capable of appreciably improving the distribution of the fruits of technical progress and eradicating situations of critical poverty.

3. Approaches to a redistribution strategy

In this discussion—which takes place today in every kind of international forum—there emerge *three lines of action and thinking*: one deals basically with *the problem of critical poverty*; a second enlarges on this concern and extends it to the field of *basic needs*; and a third integrates those objectives and subordinate them to the formulation of a *global strategy for change*, capable of modifying the original bases of the situations of deficiency and inequality.

It is not possible to enter into a detailed examination of these positions, all of which are perfectly worthy of respect. Let us merely say that from our own point of view we see no absolute contradictions between them, but only stages of a process which should integrate them according to the material, social and political conditions prevailing in each country.

We have no doubt that only a strategy which alters the structural bases and mode of operation of the global system can provide a complete answer to the complex problem we have before us. This does not mean, however, that we cannot propose and pursue more restricted and specific aims such as those linked with the campaigns against poverty or for the satisfaction of basic needs, which will help the collective conscience to clarify and mature, and provide concrete experience that

⁵The per capita gross domestic product in 1970, expressed in dollars at that year's prices, was US\$ 886 and the estimated poverty line at that time was a little over US\$ 200.

will facilitate the attainment of more ambitious goals.

Let us examine some features of these three courses of action.

(a) *The critical poverty approach*

It will take time for the permanently favourable effect of the radical changes which must be introduced in the distribution patterns to be felt by the poorest population groups. *Therefore, it is necessary to design specific policies with a view to satisfying the most elementary needs of poor families as efficiently as possible and within the shortest possible time.*

Nutrition, education, health, housing and sanitary conditions are among the areas of intervention in which experience in Latin America has shown a greater or lesser degree of success. Notwithstanding the efforts made, these can be said to have been insufficient, both because of the volume of resources assigned to those aims and because of the relatively limited proportion that has reached the extremely poor sectors. It is therefore necessary to revise the criteria for assigning public resources, especially in the social sectors, and also to make a genuine effort to increase the taxation of those groups which have reaped most benefit from economic growth, with the object of providing the resources required to face the extreme poverty emergency.

Furthermore, the prevailing institutional structure and bureaucratic and administrative practices are not the most suitable to take care of the poor population. This is because the decisions adopted in the social sectors are generally poorly co-ordinated and the "target groups" are not clearly defined. As regards the bureaucratic and administrative aspects, compliance with the rules and regulations calls for educational and other conditions which are not easily fulfilled by the population ultimately meant to be favoured.

These assistance-oriented policies, even if their coverage increases and their implementation improves, are not of course the solution to the poverty problem but merely help to palliate its most degrading features. The objective of overcoming extreme poverty is therefore mere-

ly the first stage of a development strategy aimed at achieving greater social equality.

(b) *The basic needs approach*

A second approach, which differs from the first because of its broader objectives, the means that have to be utilized and its dynamic concept, consists of the satisfaction of basic human needs. These do not refer only to the deficiencies found in extreme poverty, measured in absolute terms; but to corrective measures which, including that minimum stage, permit self-sustaining development through the creation of productive employment and levels of income which permit the persons concerned to be integrated in the economic, social and political life of their national societies. In other words, besides satisfying certain minimum material needs the aim is to cover needs which, although not of a material kind, constitute essential elements of a society providing greater participation, equality and solidarity.

A first problem which arises in the satisfaction of basic needs is the choice of a criterion for defining them. Obviously, no universally valid prescription can be given, but the criteria must be determined according to the conditions prevailing in each country and even within the national frontiers some of those needs will vary from one region to another. This determination depends on the sovereignty criterion of each country, a fact which must be made perfectly clear.

Once a criterion for identifying the basic needs to be satisfied and the groups to be favoured has been adopted by the political authorities, the strategy should specify the direct and indirect means for attaining the objectives. In this stage it is especially important to make sure that the policies designed to increase the income of the poor are not counteracted by a rise in the prices of the goods and services they consume, or that the productivity increments are not reflected merely in monetary income. What is really needed is for the increased purchasing power in the hands of the poor to be converted into greater permanent well-being based on changes in the magnitude and structure of supply.

In view of the limited resources of the

Latin American countries, the satisfaction of basic needs should be compatible with other objectives, such as the need for sustained growth, the diversification of the production system, less external dependence in terms of both products and markets, the maintenance of certain basic equilibria and the legitimate consumer aspirations of the middle income groups.

(c) *The integral change approach*

The foregoing approaches necessarily lead to a *third stage*, which consists of their incorporation in a global development strategy aimed at eliminating contradictions between objectives and making the policies consistent with one another.

The approaches based on the two primary objectives of eradicating poverty and satisfying basic needs must be integrated, in the dynamic and structural change approach, in a strategy which will simultaneously achieve the capital formation required to sustain the expansion of productive capacity. Experience shows that the spontaneous action of market forces tends to reproduce the inequalities of the existing distribution pattern and, of course, fails to assign the resources to the production of goods and services consumed by the poorest groups because of the small percentage of income they manage to obtain. Moreover, in many cases, private investment does not respond as quickly as it should to purely economic incentives.

These considerations justify more active participation by the State, both in fulfilling the redistribution objectives and in achieving the level of accumulation and structure of investment suited to the growth objectives and the reorientation of the production structure. This in no way implies ignoring the important role of the market: it merely points to the need to recognize that the State fulfils an irreplaceable function in a strategy which assigns priority to the eradication of poverty and the satisfaction of basic needs.

It is an empirically proven fact that the great social inequalities are linked with the structural heterogeneity of the productive systems, that is to say, the co-existence of big informal or traditional sectors, where technical

progress has not yet arrived, with modern activities in which advanced technologies are used. Therefore, if it is desired to compatibilize growth with a reduction of the existing inequalities, the expansion of the modern sectors should be such as to sustain a growing demand for employment, and a proportion of its surpluses should be used to help to raise productivity in the backward and informal activities.

Let us recapitulate, then: the greatest challenge facing the governments of the region is the need to assign preferential and immediate attention to the most seriously afflicted groups; to promote the creation of employment in order to make full use of the labour force at sufficient levels of remuneration to satisfy its basic needs; and to incorporate the marginalized sectors in the production process, mainly through the proper generation and channelling of investment resources.

B. THE SECOND CHALLENGE AND REQUIREMENT: TO ACCELERATE THE ECONOMIC GROWTH RATE

1. *The economic growth imperative*

The more equitable distribution of the fruits of progress and the eradication of critical poverty in a historically short time are, then, in our view, basic objectives of Latin America's development policy. Clearly, however, in order to achieve them the region will require not only to raise its modest rate of economic growth of the past four years, but systematically attain a very high rate of expansion.

Please understand me. To propose this does not, of course, mean to subscribe to the ingenuous theory that the evident situations of lack or inequality prevailing in the region will right themselves with economic growth. Very much to the contrary. As CEPAL has always maintained, to grow is important, but growth is not enough. No less important, in fact, is *how* to grow and *for whom*. We have therefore repeatedly advocated that in order to attain genuine and fair economic growth in Latin America it is indispensable that not a few of the styles of development prevailing in most countries of the region should be changed.

To accept this by no means implies, however, underestimating the prime significance of the rapid and steady expansion of the production base of the economy, nor overlooking the decisive contribution it can make towards a development strategy aimed at improving the well-being and the employment opportunities and progress of the traditionally underprivileged groups.

From this point of view, the rapid and sustained growth of the economy is essential in order, first, to provide productive well-paid employment for the huge contingents annually joining the labour force and, secondly, to raise the productivity and income of the considerable proportion of the labour force which is currently affected by the various forms of under-employment. The achievement of these two objectives constitutes, as is well known, one of the most fundamental conditions of any policy aimed at satisfying the basic needs of the population and permanently ensuring a more equitable distribution of income. But, as we have said, in the remainder of the century the region's labour force will increase very rapidly, and at present about 30% of it suffers the effects of under-employment. Consequently, in order to satisfy the minimum but essential requirements of providing productive well paid employment for the whole labour force, the economy will necessarily have to expand at a very high rate.

The need for intensive and sustained economic growth is also evident if the implications of a redistributive policy are analysed from the angle of the real production structure. A more equitable distribution of income would lead to substantial changes in the composition of domestic demand in favour of essential goods, and in order that the prices of these goods should not rise out of all proportion—thus largely cancelling out the effects of redistribution of monetary income—it would be necessary to increase their production significantly and continuously.

Moreover, in order really and effectively to improve the living levels and productive capacity of the poorest sectors, it would be imperative to increase education, health, recreation and housing services also to a marked extent. All this would in itself create important pres-

ures on the production system. Added to them would be the pressures generated by increased demand for these goods and services and also by the demand for other less essential goods and services from the middle-income groups, whose importance and growing significance in the majority of the countries of the region should not be overlooked.

In these circumstances, the maintenance of a high rate of economic growth is also indispensable in order to cover effectively, permanently and simultaneously the basic needs of the hitherto underprivileged groups, and the needs deriving from the legitimate aspirations of the middle-income sectors.

Finally, continuous and rapid expansion of the economy would help to increase the political viability of a development strategy aimed at eradicating extreme poverty and improving the distribution of income. These objectives, by definition, imply that the more unfavourable is the initial situation of the various groups, the more rapidly their levels of income and consumption must grow. In a static economy or one which grows only slowly, such a *relative* differentiation in the growth rate of the income of the various sectors would require an *absolute* decrease in the income of the richest groups, which would certainly contribute to their opposition to the redistribution programme. This political obstacle would, in contrast, be much less of a hindrance in a society in which global production expanded steadily and rapidly. In that event, the relative difference in the rates of increase in income of the various groups would be compatible with the increase in the absolute amount of income in all sectors, including the richest, and therefore the political viability of the redistribution strategy would be greater.

Accordingly, whether redistribution is analysed from the angle of its employment requirements, or of the changes it assumes in the real structure of production, or its political determinants, the achievement of a high and persistent rate of growth is an indispensable although insufficient requisite of a programme aimed at eradicating extreme poverty and distributing the benefits of general economic progress on a more equitable basis.

2. Possibility of growth: the region's potential (a) The natural resource base

The rapid summary I have made of some of the main reasons why the accelerated expansion of the economy constitutes an essential component of a redistributive strategy in the Latin American context naturally leads to the question of whether such accelerated economic growth is possible in the region.

As recent experience has clearly shown, the answer to that question partly depends on factors which are external to the region and are mainly linked with the evolution of the central economies, the policies they adopt (particularly in connexion with trade), and the progress made by the world community towards establishing a new international economic order which will be fairer and more favourable to the development of the economies of the Third World. Furthermore, any answer to this question would have different meanings for the various countries of the region, whose growth possibilities and prospects are, of course, very different.

Be that as it may—and taking these limitations into account—I consider that the answer to this fundamental question is essentially affirmative. In my opinion, a rapid and sustained process of economic growth is not only necessary in Latin America but is also possible.

This view—one of hopeful but realistic optimism—is based fundamentally on the region's vast potentialities and on the evident—though still insufficient—progress made recently in utilizing them more fully than in the past.

This vast potential—whose full realization constitutes one of the great challenges which Latin America will have to face in the remainder of the century—is based on four fundamental factors: the region's natural resources base, the magnitude and skill of its human resources, its capital goods production potential, and the size of the market.

Let us briefly recall some basic data on each of these factors and formulate, also very briefly, some considerations on their significance for the attainment of an accelerated growth rate.

It is common knowledge that in the last few years, particularly since the historic oil price adjustment at the end of 1973, there has been an evident and fully justified reevaluation of the role of natural resources in the development process. This has led to the rediscovery of the obvious principle—often forgotten in the recent past—that the availability of a broad and varied natural resources base constitutes a condition which, while not in itself guaranteeing the attainment of a high rate of growth, greatly facilitates this task to the extent that it is accompanied by policies leading to the rational utilization of such resources.

From this viewpoint, and if consideration is given to the region as a whole, Latin America is obviously in a privileged position. As distinct from other areas of the Third World and the majority of the industrialized countries, Latin America possesses a relative abundance of arable land and some countries of the region still have unexploited agricultural potential. Thus, according to preliminary calculations, it is estimated that the potentially cultivable area for the whole of Latin America is close to 575 million hectares, of which only some 170 million are cultivated at present. Naturally, these figures are subject to a wide margin of error and it would be a mistake to conclude from them that the cultivated area can expand rapidly and easily within the short term. Clearly, however, the existence of a considerable area which can gradually be incorporated in the land under cultivation is a relatively exceptional possibility in the world context, and its economic significance should not be underestimated.

Latin America also possesses a broad and varied base of mineral resources. Although it must be borne in mind that there are huge areas of the region whose mining potential has not yet been explored by means of modern techniques, the known reserves of some minerals are impressive. Thus, for example, Latin America's reserves of copper represent one-third of the world total, those of bauxite more than one-quarter, and those of iron one-fifth. At the present rate of production, the known reserves of iron are expected to last 225 years, those of

bauxite nearly 200 years, those of copper one century, and those of nickel over 80 years (see table 5).

Moreover, in the last few years Latin America's position has improved dramatically as regards petroleum and gas reserves and the region also possesses an enormous hydroelectric potential. Suffice it to recall that this hydroelectric potential is one-third greater than that of the Soviet Union, it is more than double the combined potential of the United States and Canada, and it is four times the total potential of Europe. No less important, not more than 15% of the potential is utilized at present and there are therefore great development possibilities in this field too.

(b) *The new labour force*

The availability of abundant and diversified natural resources is undoubtedly a propitious factor for achieving rapid and stable economic growth. It is not less evident, however, that the realization of the development potential implicit in that natural resources base depends on the simultaneous existence of other factors, particularly the work aptitudes, skills and vocation of the population and its savings.

If we consider the world scene, we will

find that among the countries which have reached satisfactory levels of economic development there are some which have possessed rich and varied natural resources, and others which, on the contrary, have had a somewhat modest and undiversified base of primary resources. All of them, however, whatever their politico-institutional régime, have had one fundamental feature in common, and that is that the prolonged process of economic expansion and continuous increase in productivity has been preceded, or at least accompanied, by a substantial rise in educational levels and, above all, by a genuine universalization of basic education.

From this standpoint, there is still much to be done in the countries of Latin America. On the other hand, it would be neither fair nor realistic to ignore the progress achieved in this field. These advances —imperceptible perhaps if viewed within a short-term perspective and more marked in some countries than in others— have transformed and substantially improved the structure of skills of the Latin American population.

As a result of this progress the labour force of the region is now radically different from that which existed, for example, barely a

Table 5

LATIN AMERICA: RESERVES OF MAIN MINERALS

Minerals	Latin American reserves (millions of tons)	Latin America's share in world total (percentages)	Annual production in 1977 (thousands of tons)	(4) = (1)/(3) Duration of reserves ^a (years)
Bauxite	4 360 000	26.0	22 082	197
Copper	150 000	33.0	1 494	100
Tin	1 597	16.0	40	40
Iron	19 800 000	20.0	87 834	225
Nickel	5 500	9.0	67	82
Lead	12 000	7.0	440	27
Zinc	14 000	9.0	936	15

Source: *Mineral Facts and Problems: Metal Statistics 1967-1977*. Metallgesellschaft Aktiengesellschaft. Frankfurt am Main, 1978.

^aAt the 1977 rate of production.

generation ago. Thus, it includes —to mention only a few striking instances— a much higher proportion of specialized workers employed in a modern and far more extensive and diversified urban sector and such specialized personnel is beginning to be found too in the more developed strata of commercial agriculture. This new style labour force also includes the new entrepreneurs, who are more dynamic and innovating than their predecessors and are increasingly often found in manufacturing, agriculture, mining, construction, basic services, commerce and financial activities. It also includes new professionals and technical cadres whose influence is increasingly evident in public administration and the management of State enterprises.

It was largely due to this multifaceted transformation of the region's human resources that Latin America was able significantly to raise its growth rate in the decade prior to the start of the world recession, so that, in spite of the recession's negative effects and the growing protectionism of the industrialized countries, the region continued to expand and diversify its exports and increase its competitive capacity on the world markets.

Recognition of these positive facts should not, of course, lead us to adopt a passive and complacent attitude. On the contrary, it should lead us to emphasize the priority which ought to be assigned to measures for improving the skills and, especially, the versatility of the labour force, which are characteristics that—in a dynamic world subject to sharp changes—are perhaps the most essential conditions that must be satisfied in order to achieve rapid and persistent economic growth.

(c) Capital goods production potential

This qualitative transformation of the labour force has been accompanied by a continuous rise in the investment coefficient. This grew slowly but steadily from 18% in 1950 to 20% in 1960, to a little less than 22% in 1970, and much more rapidly thus far in the present decade, to a level around 26% in the last few years.

Two of the main results of this investment process have been, first, the growth and diver-

sification of the manufacturing sector and, secondly, the equally considerable expansion and diversification of the store of capital. Thanks to this, Latin America's present capacity to produce its own equipment, machinery and inputs of basic importance for capital formation is much greater than in the past.

Thus, for example, the steel industry—which is generally taken as a symbol of that capacity and which undoubtedly constitutes a fundamental component of any reasonably self-sufficient industrial system— produced 23.5 million tons of steel in 1978, which is 80% more than in 1970 and five times the 1960 output.

In its turn, the production of cement—a product which may in some degree be considered as an indicator of the capacity to make a broad range of infrastructural investments— was also 80% higher in 1978 than in 1970, which indicates that, as has been happening regularly since 1950, it will also double during this decade.

The increase in the generation of electric energy—another key factor of the capacity to support growth and structural change in the economy— has been even greater. After increasing fivefold between 1950 and 1970, it has continued to expand at a very high rate so far in this decade, to the point where by 1978 it has already almost doubled the figure for 1970.

Lastly, the metal manufactures and machinery industry—which has decisive significance in the manufacture of machinery and equipment— expanded its production at an annual rate of about 10% between 1950 and 1970, and its growth was even more rapid in the first half of the present decade. As a result, its production in 1975 was 1,000% higher than in 1950 (see table 6).

For a better appreciation of the strategic significance of these figures it is useful to compare them with those for some of the industrial systems developed not too many years ago. Thus, if consideration is given to the group composed of the Federal Republic of Germany, France and Italy in 1960, that is, when these three economies, following their recovery from the ravages of war, had almost completed a decade of rapid growth and constituted one of the most important industrial nuclei in the

Table 6

LATIN AMERICA: EVOLUTION OF SOME MACROECONOMIC VARIABLES
AND SELECTED INDUSTRIAL PRODUCTS

	Physical volume				Annual growth rates			
	1950	1960	1970	1978 ^a	1950-1960	1960-1970	1970-1975	1950-1975
Gross domestic product ^b	48.9	80.5	137.1	212.5	5.1	5.7	6.4	5.5
Manufacturing product ^b	9.3	17.3	33.6	57.9	6.5	6.9	7.2	6.8
Production								
Steel ingots (millions of tons)	1.4	4.8	13.0	23.5	13.3	10.6	6.8	10.9
Cement (millions of tons)	7.3	16.5	32.1	57.7	8.6	6.8	7.6	7.7
Metal manufactures and machinery ^c (1970 = 100)	16.0	41.0	100.0	173.0 ^d	9.9	9.3	11.6	10.0
Electrical energy (billions of kWh)	27.0	67.6	147.6	271.7	9.6	8.1	8.4	8.8

^aPreliminary figures.

^bBillions of dollars at 1970 prices at factor cost, using the import exchange rate. Not including Cuba or the English-speaking Caribbean countries.

^cExcluding basic metal industries.

^d1975.

world, it will be noted that Latin America's electric energy generation in 1978 was 15% greater than that achieved by those three economies in 1960, and that Latin America's cement production in 1978 also exceeded the output of that group of countries in 1960. Moreover, Latin America's output of cement, electric energy and steel in 1978 was 150, 135 and 9% higher, respectively, than that achieved in 1960 by Japan, which was already by that year another of the most important and dynamic industrial systems in the world. Finally, the region's cement production in 1978 was about 30% higher than that of the Soviet Union in 1960, while its electric energy generation was only 7% less.

It seems clear, therefore, that thanks in particular to the development of the region's manufacturing sector in the past quarter of a century, Latin America has today a relatively broad and diversified industrial base which ensures at least one of the conditions for a

more accelerated and autonomous process of capital formation.

(d) *Size of the market*

It is a well-known fact that the existence of broad and homogeneous markets constitutes a favourable condition for growth. They enable economies of scale to be fully utilized, with a resulting reduction in production costs: a fact which is of decisive importance in the present-day scene and which has undoubtedly constituted the basic economic reason underlying the regional integration systems in various parts of the world.

From this standpoint, too, taking the region as a whole, Latin America's situation and prospects are most interesting. Thus, in 1978 Latin America's total gross domestic product was equal to over 80% of the combined product of the Federal Republic of Germany, France and Italy in 1960, it was only slightly lower than

the product obtained that year by the Soviet Union, and it was three times Japan's total product in 1960.

Furthermore, if from this year to 1990 the region were to grow at an average annual rate of 7.4% —a rate which is only slightly over that actually obtained in the period 1970-1974— Latin America's total product in 1990 would be 20% higher than the combined product of the Federal Republic of Germany, France and Italy in 1970, 10% higher than that of the Soviet Union for that year, and 150% higher than Japan's 1970 product.

It is true that these figures relate to Latin America as a whole, which unfortunately is far from being a unified market today. However, they have a dual and far-reaching significance.

On the one hand, they provide a first indication of the actual benefits obtainable in the medium term if the countries of the region were to progress decisively towards closer economic integration. In that case, the considerable size of the regional market would make possible the installation in Latin America of plants which, for technological reasons, require a very high production volume in order for the goods produced by them to be able to compete on the domestic market with those imported from outside the area, given a reasonable and gradually decreasing degree of protection.

On the other hand, the figures given on the size of the regional market also serve to provide an idea of the much greater bargaining power our countries would have on the international scene if, instead of acting independently, they adopted a joint, or at least a co-ordinated, stand.

3. *Four requirements for a growth strategy*

As we have seen, the growth potential of Latin America is considerable, for the region possesses abundant and varied natural resources, has a labour force with far better qualifications than before, has succeeded in establishing an industrial sector of some size, and taken together constitutes a market of sizeable dimensions.

This potential, however, does not of itself guarantee that Latin America will in the future actually arrive at a high and sustained rate of growth. To achieve this it must conceive and

apply a coherent set of policies which will also enable it to secure a fairer distribution of the fruits of this growth and a greater degree of autonomy.

It would naturally be impossible to sum up here the essential characteristics of a development strategy which would pursue these objectives. Obviously, they would also vary very much in the different countries of the region and would have to take into account the different political situations of each of them.

For these reasons I only wish to mention what, in my opinion, are the important requirements for progressing towards and achieving the above-mentioned objectives. I would, however, stress that they do not in any way constitute an exhaustive list, and I am also fully aware that they have very different relative importance in the different economies of the region.

(a) *Increasing domestic savings*

A first condition for achieving rapid, equitable and autonomous development is to increase domestic savings. Although in the recent past numerous Latin American countries have increased their savings coefficients, these will have to be much larger in the future in order simultaneously to boost the growth rate and reach a state of relatively less dependence on external financing.

It will not be easy, of course, to comply with this requirement, for as I already said, if it is really desired to progress in the fields of the redistribution of income and the eradication of extreme poverty it will be necessary to allocate far more resources than in the past to the production of basic consumer goods and essential services such as education and health. In order to enable domestic savings to be increased at the same time, it will be necessary to cut down the rate of growth of luxury consumption, improve the institutional machinery and incentives which promote private savings and increase public sector savings. This latter will in turn require an increase in taxation, the elimination or at least the reduction of non-essential fiscal spending and the efficient management of State enterprises.

(b) The expansion of exports

A second basic requisite for achieving the proposed objectives is to increase the growth rate of exports. It is particularly important to fulfil this condition if faster and continuing economic growth is to be achieved in the relatively smaller countries, for their exports account for a fairly high percentage of final demand and their export growth rate therefore has a greater direct impact on the growth of production. Moreover, generally speaking the natural resources of the relatively small countries are less extensive and diversified, while they also have a smaller and less varied industrial base than the larger Latin American economies. In view of these two circumstances, the possibility of speeding up growth depends heavily on their capacity to import a substantial variety of raw materials, intermediate inputs, consumer goods and particularly machinery and equipment, and this capacity to import basically depends in the final analysis on their volume of exports. In these countries the export sector thus constitutes the activity which so to speak "produces" a large proportion of the capital goods they need, and for this reason the continuing and rapid growth of exports is an indispensable condition for being able to transform plans for domestic savings into real investment.

Although it is less direct, the influence of the rate of growth of exports on the overall growth rate of the economy is also very important in the largest and most developed economies of the area. The import coefficients of these countries are generally very low, and in the majority of cases the structure of imports includes only a small proportion of non-essential goods. Consequently—except for relatively brief periods—the growth rate of the economy tends to be limited by the rate at which the volume of imports increases, and this rate in turn depends on the speed at which exports increase. This last relationship may not, of course, apply in the short-term and even over longer periods if the net income from loans and investment makes it possible to finance imports whose value exceeds that of exports during the period. This imbalance between external sales and purchases, how-

ever, can only be maintained at the cost of a growing external debt, whose adverse effect on the degree of autonomy of development is self-evident and the servicing costs of which eventually make it essential to reverse the disequilibrium in external trade, so that finally the global rate of economic growth is once again conditioned by the rate of growth of exports: hence the fundamental importance of rapid and continuous growth of exports for these economies.

(c) Rural development and the growth of agricultural production

The modernization of the rural sector and the sustained growth of agricultural production and productivity constitute a third basic component of a strategy aimed at rapid, equitable and autonomous development.

In the first place, rural development is indispensable in order to achieve a fairer distribution of social income, for in the majority of our countries the most flagrant gap is not that between the incomes of the capitalists and the workers in the modern urban sector, but that existing between the levels of living of the urban workers and those who live and work in rural areas. Not only is this inequality expressed in the different average incomes received by the inhabitants of urban and rural areas but it is reflected in a particularly clear and dramatic manner in the health, education and housing indicators, and in the fact that the rural population includes an extremely large proportion of the total number of families affected by extreme poverty.

This basic gap between urban and rural levels of living is, of course, a product of numerous factors, some of which, like the very unequal distribution of agricultural property existing in many countries of the region, are structural features of the rural economy itself. To a large extent, this is also the result of the effects of economic policies which in practice have penalized the enterprises and workers of the agricultural sector. It is a fact that in not a few cases exchange, tariff and price policies have resulted in this sector receiving artificially low prices for its products while it has had to pay excessively high prices for its inputs and

for manufactures in general. It is also true that the agricultural sector, and particularly the smallest farmers, have received a very small fraction of the total credit available. And lastly, it is also a fact that fiscal expenditure on education, health, housing, public works, training and technical assistance have benefited the inhabitants of the cities to a disproportionate extent, to the relative disadvantage of the rural population. It is therefore essential to rectify these discriminatory policies if the incomes of the rural population are to be improved and if a fairer distribution of national income is to be generated. Measures of this kind, aimed at striking a better balance between urban and rural levels of living, should be supplemented by activities which, like those aimed at changing the distribution of agricultural property and raising the organizational levels of the rural workers, contribute to generating a fairer distribution of income within the agricultural sector itself.

The measures aimed at correcting examples of discrimination against the agricultural sector and the rural population, however, would not only be positive in that they would contribute to the establishment of a fairer distribution of national income, but would also be of value in that they would help to increase the profitability of investment in agriculture and augment the productivity of the rural labour force, thus also promoting more rapid growth of agricultural production and consequently helping to achieve more rapid overall economic growth.

This contribution would be particularly significant in the many countries of the region where the agricultural sector still generates the largest share of the total domestic product and where its growth rate is in the final analysis decisive in determining the speed at which the economy grows as a whole.

In many of our economies the agricultural sector also generates the greater part of total exports, and we have already seen the fundamental influence that the growth of exports has on the overall economic growth rate. Lastly, increasing agricultural production is important because the rate at which the supply of food increases depends on it to a large extent, and this in turn is one of the main conditioning

factors both for the level of real wages and the stability of price levels.

(d) *Need to secure a minimum of stability in price levels*

Finally, I consider that another condition for rapid and above all continuing economic growth is to maintain at least a minimum of stability in price levels. Naturally, in the present circumstances, when the economies of the region have been obliged year after year to face up to strong external inflationary pressures, largely originating in the continuous rises in price levels in the industrialized countries, this minimum stability cannot be interpreted in absolute terms.

In the light of Latin American experience, however, it is also evident that inflationary processes of any substantial intensity are essentially incompatible with the maintenance of a high and sustained rate of economic growth. These inflationary processes may perhaps stimulate the apparatus of production during short periods and with apparent ease, but after a short time this spurt in growth initially generated by inflation tends to fade out, while the price increases simultaneously reach unacceptable levels. The need to apply policies aimed at easing inflation then becomes unavoidable, and as is evident from several instances of regional experience, the stabilization policies applied for this purpose tend to depress the rate of economic growth for several years and even cause considerable drops in the level of overall production and particularly in investment. Finally, when the cycle comes full circle and inflation is reduced to more normal levels, the average rate of growth achieved during the period is seen to be very low and the accumulation of production capital minimal, thus adversely affecting the possibility of substantial growth in the future.

Both at the stage of the acceleration in the rate of inflation and in the initial phases of the stabilization programmes, real wages tend to decline notably, so that income distribution is also adversely affected.

This is why we are convinced that the maintenance of a modicum of stability in price levels constitutes another basic requisite of a

strategy aimed at achieving rapid, sustained and equitable economic growth.

C. THE THIRD CHALLENGE AND REQUIREMENT: STRENGTHENING THE AUTONOMY OF GROWTH

The experience of recent years shows that Latin America has pursued a more open form of development, more closely linked with the international economy.

This is nothing new, as we are all aware, for the influence of external factors has been a historical constant in the region and in the developing countries in general. What is new are the forms this phenomenon has acquired, we shall now go on to discuss.

To avoid misinterpretation, let us say that we consider this evolution to be positive and necessary for the internal development process in so far as it enables activities requiring more wide-ranging markets to be projected outwards, and the way ultimately opened for another scheme of international division of labour.

We must also recognize that not all the effects of this relationship with the international economy are positive, however. There are also risks to be identified, and an attempt must be made to lessen them. These risks are manifested, on the one hand, in the conditioning factors which this relationship implies for our development, and on the other in the undesirable fluctuations caused in our economies by the course of international events.

Overcoming these two major liabilities constitutes one of the essential tasks of economic policy. This should foster the active insertion of our economies into the international economic scenario and at the same time reduce the vulnerability and perils involved in international interdependence. To the extent that these objectives are achieved, the autonomy of Latin American growth will be correspondingly strengthened.

What should we understand by "active" insertion in the international economy? I think we should understand it as the kind of insertion which is fostered and selectively oriented by the national authorities in keeping with the objectives of national development. This does not, of course, mean ignoring the role which

the forces of the market can and should play in this selection. We do not, however, believe that these forces should be the only factors determining the process. The linkage between the region and the international economy conditions domestic development right from the start. It must therefore be oriented so as to uphold the main objectives of the community. Consequently, the linkage with the international economy should not be entirely subject to the forces of the domestic market or those of the growing power of the transnational corporations.

In other words, Latin America should make the maximum possible use of the advantages stemming from closer links with the rest of the world, but without renouncing a form of development defined in an autonomous manner. Just as each of our societies has some form of national development project, so also should we set ourselves a national project for our insertion in the international economy on a selective basis in keeping with our own interests.

There is no single way of doing this, of course. In the last analysis, the forms of insertion which each country selects will be determined by the degree of development it has achieved, its size and geographical location, its traditional trade and financial relations and its own economic or political ideology as regards the development of its forces of production and its social objectives.

The second basic objective in this area is to lessen external vulnerability. In order to analyse the implications of this, it is essential first of all to examine the new forms of the internationalization of the region.

1. *The new forms of Latin America's insertion into the international sphere*

I have already referred to the deep-seated change which Latin America has undergone during the last thirty years, and particularly during the present decade: a change which has substantially altered the forms of the region's insertion into the international sphere in at least four basic aspects.

The first of these changes occurred in the structure of Latin American exports. In the

1950s, more than 95% of these exports consisted of primary commodities. Today, however, industrial goods account for nearly 20% of the region's total exports and are worth around 10 billion dollars. These figures clearly show that the Latin American countries have learned to export, by placing their manufactures —some of which have a high level of technological sophistication— in their traditional markets and diligently seeking to open up others. The growth and diversification of exports thus constitutes a novel and basic feature of the new Latin America.

The second change relates to the origin of the external financing received by the region. During the 1950s, the bulk of the capital entering Latin America was of public origin and only a small proportion came from private sources. Nowadays, however, the percentages have been inverted. Four-fifths of the capital inflow is of private origin and only one-fifth of public origin. Owing to the abundant financial resources flowing into the region, the external debt increased from 10 billion dollars in 1965 to more than 60 billion dollars in 1975 and then continued to escalate until it reached an estimated 100 billion dollars in 1978. Latin America has thus become an active seeker of capital in the private banking markets —a situation practically unknown in the past.

The third change concerns the participation of the transnational corporations. The increasingly powerful presence of these corporations in the countries of the region is another manifestation of the transnationalization of the Latin American economy. It is estimated that in 1975 the accumulated investment of the OECD countries in Latin America came to nearly 40 billion dollars, while the overall sales by transnational corporations in the region amounted to some 80 billion dollars —nearly twice the total value of Latin American exports for that year.

The fourth change concerns the intensity and the nature of Latin American demand for technology. As a result of the diversification of the apparatus of production and the progress of industry, regional demand for new technologies has gone up enormously and its nature has changed. This demand now covers the most varied fields and in recent years has come to

include nuclear technology for peaceful purposes. This trend has become progressively more pronounced as the bases of the system of production have been expanded and diversified and the region has begun to produce increasingly sophisticated industrial goods.

These facts show the profile of the new forms of Latin America's insertion in the world economy and reveal how its links with it have become progressively stronger, with all the advantages but also all the contradictions which this involves.

It is therefore more than ever imperative to answer the question we asked earlier: how can we lessen the vulnerability which the growing internationalization of the region creates in us?

2. *Lessening external vulnerability: the tasks of the region*

Faced with this question, a clear distinction must be drawn between what the region should do and what is incumbent on the international community —mainly the group of the industrialized economies.

As regards the first responsibility, we have already stressed that much of the action taken in recent years has worked towards strengthening Latin America's defence capacity *vis-à-vis* the international economic conjuncture. This is why our countries must keep up the process of the diversification of production; increase and diversify their exports, both in terms of the number and variety of the goods exported and the markets on which they are sold; implement domestic policies of readjustment so as to be able to cope with the trends indicated by the international conjuncture in such important aspects as the price structure; and define policies for dealing with the transnational corporations so as to adapt them to national interests. We must also regard questions of regional co-operation and policies aimed at closer links with and concertation of our conduct *vis-à-vis* the international community as matters of interest falling within our competence.

For many years CEPAL has stoutly maintained that regional co-operation should constitute a basic element of our development. We

consider that while this assertion continues to be as valid as ever, such co-operation should now play the additional role of serving to offset and defend against the vicissitudes of the international economic conjuncture.

This does not mean, of course, that we should reduce our efforts to achieve an active insertion in the world economy. It does, however, mean recognizing that regional co-operation is nowadays called upon to play a more important role than in the past, in so far as Latin America makes an effort to achieve the double objective of reaping the benefits of its active integration into the world economic system on the one hand and maintaining the autonomy of its growth process on the other.

There are, it is true, indications that regional integration is passing through a period of crisis or stagnation. Of the four formal integration schemes in existence, the Andean Group has stood out during the present decade on account of its greater dynamism, while the Central American Common Market (CACM) and the Caribbean Community (CARICOM) continue to face major problems and the Latin American Free Trade Association (LAFTA) is approaching the end of the period of transition set by the Caracas Protocol without having achieved any revitalization of the integration process.

Despite these circumstances, the relations among the countries of the region have not ceased to grow during recent years, both through the increase in reciprocal trade and through joint activities of specific types.

Between 1960 and 1977, intra-regional exports grew nearly three times more rapidly than exports to the rest of the world, so that their share in total exports increased from 8% in 1960 to 17% in 1977. The importance acquired by regional trade is even greater if one looks at its structure, in which manufactures carry a far greater weight than in exports to the rest of the world.

Moreover, the relative weakening of some of the formal integration schemes has been offset by a definite tendency towards the expansion of economic co-operation among the countries of the region through partial activities of a specific nature. Thus, the integration

of the physical infrastructure has experienced sustained and noteworthy progress both in the field of transport and in that of communications and energy (especially hydroelectric energy). The Latin American countries have also given considerable impetus to the complementation of their production sectors, not only through an increasing flow of intra-regional investment, but also through transfers of technology from the countries which have reached relatively advanced stages of development.

In this regard, the growing heterogeneity existing among the Latin American countries from the standpoint of the size of their economies, their degree of development, the natural resources they possess and other factors would appear to be a stimulus for undertaking joint action, in that it makes it necessary to combine the markets, natural resources, technological capacities and financial surpluses of the different countries. Although it would be premature to evaluate the impact of this type of activity on the economic development and complementarity of the countries of the region, its dynamism is certainly notable.

What is perhaps even more important is the fact that the increase in mutual trade has contributed very effectively to mitigating the impact of the profound disturbances which have affected the international economy in recent years.

At the same time, greater economic complementarity among the Latin American countries would seem to be a necessary condition for them to reach new levels of efficiency and competitiveness in the world markets, particularly in activities which, for reasons of scale, the origin of their raw materials, technological sophistication or the volume of financial resources required, demand a joint effort by two or more countries.

I am therefore convinced of the need to rethink the role which regional economic complementarity is called on to play in the future development of the countries of Latin America. This is also why we are watching with great interest and concern the progress which may be expected in some of the ongoing negotiations on the integration schemes. I refer particularly to those which are to take place this year within LAFTA and the continuation

of the negotiations taking place in the Central American Common Market.

3. Reduction of external vulnerability: areas in which the co-operation of the international community is required

It must be acknowledged, however, that the individual efforts of our countries and even their possible concerted action at the regional level will not be enough to achieve a significant increase in the degree of autonomy of our domestic development, for this will continue to be strongly influenced by what the industrialized countries do or fail to do. This is why the Latin American countries have a vital interest in the future evolution of the international economy and the process of negotiation of the New International Economic Order.

I will begin by repeating that the great hopes of the region must continue to be firmly placed in this process of negotiation. When we look at the agonizing slowness of the progress made in this matter so far, however, we cannot feel too optimistic. Moreover, it is also true that the profound economic transformation of the region in the last few decades, and especially the new forms of our international relations, are changing the priorities as regards the objectives which Latin America must pursue through the establishment of a New International Economic Order.

Does this mean that we should take less interest in this new Order?

The answer is most definitely no. It is only necessary to look at some of the great areas of international discussion to see that even though the relative emphasis may have changed, the region continues to be deeply interested in what goes on in the forums where the international dialogue is taking place. Let us look, for example, at some of the topics which are under discussion in various international forums today.

(a) A new international framework in the field of basic commodities

A first example is that of basic commodities. As I already noted, these continue to represent 80% of the total value of the region's exports.

Traditionally, Latin America's main concern in this field has been regarding the proportion of the value of total sales which returns to our countries in the form of taxes on the profits of the big foreign commodity-exporting firms and the expansion of their investments.

Now, however, the ownership of these enterprises has changed in many cases and the concern of the Latin American countries is centred more on the stabilization and improvement of prices and the increasing of income from their exports of commodities. This is quite logical, since commodities will continue for many years to be a fundamental item in our foreign exchange income. It is therefore a matter of special and disquieting concern that in the last few decades Latin America has been losing relative importance in the world food and commodity markets both to the other two developing regions and to the industrialized countries.

Thus, for example, between 1960 and 1977 Latin America's share in world exports has dropped from 47% to 26% in the case of bauxite, from 70% to 52% in the case of coffee, from 58% to 46% in the case of sugar, and from 23% to 12% in the case of meat.

It is easy to see the unfavourable repercussions of these figures for the majority of the countries of the region, which still depend mainly on exports of these products.

The loss of opportunities to increase our foreign exchange earnings implicit in the above figures gives grounds for reflection as to why the efforts made and the successes achieved by the Latin American countries in the field of exports of manufactures have not been accompanied by similar advances in exports of commodities.

This is why the region must continue to take an active part in the discussions aimed at establishing a more equitable framework for commodity trade. It should be noted in this connexion, however, that the criterion of price stabilization is not enough, and may even be highly dangerous in periods of inflation like the present. The important thing is to secure stabilization of commodity trade in such a way that these products receive fair prices on international markets.

It is necessary to advance with equal

determination in the fields of the marketing, transport and local processing of these goods. The recent progress made regarding the Common Fund represents a positive albeit timid step towards what ought to be an authentic new order in this field.

(b) *External financing*

A second important aspect is that connected with external financing, for in the future Latin America will continue to need large flows of capital to supplement its domestic saving and its import capability. Although there have been times when it may have seemed that the improvement in the region's terms of trade had reduced the importance of external financing, the last few years have demonstrated how important the provision of external resources has been for the maintenance of Latin America's growth.

There are also other important changes which should be taken into account in this connexion. During the years following the war, both Latin America and the industrialized countries attached great importance to official development aid and especially the concessional nature of the terms of credits.

Today, our concern is centred on three factors directly linked with the transfer of resources from the industrial countries to the developing countries, namely:

- (a) the progressive elimination of Latin America from the flows of transfers of public resources, both bilateral and multilateral;
- (b) the real or potential limitations on the region's access to capital markets and possible restrictions which might arise in the future;
- (c) the lack of suitable machinery for facing up to the new-style balance-of-payments crises.

In one form or another, and with different degrees of severity, the Latin American countries have been suffering from all these problems, as they have made known in international forums.

The progressive elimination of Latin America from among the recipients of official development assistance is very well known. Of course, there is no denying that it is permissible and necessary for the international community to provide support to the

relatively less developed countries of the Third World in the form of generous credits on concessional terms. What is open to dispute, however, is the justice of excluding Latin America from access to public sources on the pretext that it can manage on its own by making use of the private capital markets.

We believe that Latin America should share in public flows both of capital and of technical assistance—and not only in the case of the relatively less developed countries, but also in the case of the remainder, inasmuch as certain types of credit required to finance the development of the region can only be secured through public channels.

In this context I should like to emphasize that the region's external savings requirements are large today and will be much larger in the future, and that private sources are not capable of meeting these needs on the terms and for the periods which are often required. Accordingly, it is essential that the international community should continue to support such institutions as the Inter-American Development Bank, the World Bank and the regional financing agencies.

These observations lead me to the second issue of concern in this field: the need to maintain the region's access to private financial markets and to sustain the substantial flow of private capital currently being directed towards the region. Regrettably, these flows largely consist of short-term and medium-term capital, and many Latin American countries have still not secured full access to sources of long-term finance, which is so necessary in order to maintain an adequate rate of growth.

Finally, some countries of the region are concerned at the lack of resources to deal with the new types of balance-of-payments crises. As was pointed out in the report referred to above prepared recently by the UNDP/UNCTAD project on the balance-of-payments adjustment process in the developing countries, "it is important to distinguish between those components of a balance-of-payments deficit for which a developing country is directly responsible and those which are due to factors outside its control".

And it is no less important to recognize that, as the report also indicates, "to the extend

that such deficits are merely the counterpart of structural surpluses in other parts of the system or reflect substantial price movements of external origin, the adjustment must take place over extended periods of time".⁶

Even though limited efforts have been made to meet these financing requirements generated by the international economic situation in recent years, much remains to be done. For that reason the existence of sources of resources provided on terms appropriate to the new critical balance-of-payments situations should constitute one of the principal objectives of the international community.

It is therefore natural that the region is keenly interested in the international negotiating machinery through which attempts are being made to establish a new international monetary system and to assist the developing countries with their balance-of-payments problems and external resource requirements.

(c) *Relations with the transnational corporations*

The relations of the Latin American countries with the transnational corporations—and the flows of investment and technology which are usually channelled through them—constitute another issue of major importance. For that reason the region has a strong interest in international negotiations on this subject and especially on the Code of Conduct.

Latin America has become one of the most attractive regions of the world for the operations of the transnational corporations, as a result of a set of factors including the growing size of its markets, the abundance, skills and relatively low cost of its labour force, its degree of institutional development and the abundance of its natural resources.

This has sharply increased the bargaining power of the countries of the area, and as a result they have come to take a more active stance *vis-à-vis* the transnational corporations and have sought better ways to reconcile the

corporations' activities with their own national development objectives.

This has led to the emergence of links and relations with such corporations which range from co-production and specialization agreements to agreements limited to the provision of technological inputs or marketing services. At the same time regulations have been drawn up to ensure that the corporations enter into association with local public or private capital, thus achieving a fairer distribution of the benefits derived from their activities.

Nevertheless, concern remains regarding other problems, such as the role of the transnational corporations in generating balance-of-payments deficits, their low level of investment from external sources, the high import content of the goods they produce or the ways in which prices are established in transactions within the companies.

All this naturally calls for appropriate decisions as regards national regulation. However, it is already well established that this is not enough, and that to some extent there is an additional need for general rules, jointly adopted by the countries, to govern the activities and policies of these firms.

(d) *Control of the new protectionism in the industrial centres*

While laborious progress is being achieved in this and other areas of international negotiations, certain actions are being taken in some industrialized economies which, because of their magnitude, give rise to serious concern in the countries of the region and throw a shadow over their domestic development efforts. I refer to the recent and marked recrudescence of protectionist tendencies in the major industrial countries. I have already mentioned that one of the most positive factors in Latin America's economic development has been the vigorous effort to export manufactures, as a result of which exports of industrial goods have become a factor for growth and stability for the countries of the region.

Just at the time when this favourable trend is occurring, however, protectionist tendencies are arising with increasing force in various

⁶UNDP/UNCTAD, *The Balance of Payments Adjustment Process...*, *op. cit.*, p. 5.

industrial countries, with a consequent adverse impact on our exports.

Thus, an estimate based on CEPAL analyses of 75% of Latin America's trade with the United States, Japan and the European Economic Community shows that the protectionist measures applied in those three markets caused the region to lose 2,800 million dollars in 1976 in terms of goods not exported because of the measures. That sum was equivalent to about 15% of the total exports considered.

It should not be said that we are facing a new problem. It is well known that protectionism—especially in agriculture—has a long history in international trade. What is worrying is that this phenomenon is now assuming different characteristics, forming a much more subtle and complex picture and tending to create a permanent system behind a screen of exceptional, temporary measures.

Thus, the introduction of quotas, voluntary agreements, non-tariff barriers and other protectionist measures is tending to increase. Their importance is undoubtedly much greater as a potential threat than as a present reality, but there are already signs which give grounds for concern and reflection.

The new protectionist measures contain blatant contradictions which have been pointed out repeatedly not only by spokesmen for the developing countries but also by far-seeing personalities of developed world.

Firstly, there is a flagrant contradiction between such actions and the traditional economic theory originated in the industrialized countries themselves, and also between actions of this nature and the recommendations made by the latter countries over a long period to the developing nations, to the effect that they should open up their economies to international competition and become more fully integrated in the world economy. This manifest contradiction is without doubt a special source of frustration and resentment for the countries of the Third World, and one whose consequences should not be underestimated.

A second contradiction arises within the industrial countries themselves, and concerns the difference between the cost they would incur in opening themselves up fully to in-

ternational competition (and reorganizing their internal structure of production to that end) and the cost of the new protectionism.

In fact, the real cost of a policy of free trade in the industrialized countries cannot be compared to those of the protectionist measures they have proposed or adopted.

Thus, for example, a recent study carried out for the United Kingdom revealed that while between 1970 and 1975 134,000 jobs were lost in 24 industrial sectors as a result of increased imports of competing products, only 47,000 of the losses were attributable to imports from developing countries. This latter figure is equivalent to less than 2% of the labour force employed in the sectors covered in the report. Moreover, the net drop in jobs related to trade with the developing countries was even lower, since account must be taken of the rise in employment due to the increase in British exports to those countries.

These and other similar data would appear to show that the impact on the industrialized economies of competition from the developing countries is much less than is claimed in attempts to justify the current growth in protectionism.

Protectionist reactions to imports of manufactures from the developing world also usually forget that in their trade in manufactures with the developing countries in 1976 Europe and North America recorded a positive balance of 100 billion dollars—corresponding to the net creation of 10 million jobs in those industrialized economies taken as a group.

Moreover, the recent World Development Report of the International Bank for Reconstruction and Development indicates that in 1977 the developing countries absorbed 33% of North America's exports of manufactures, while Western Europe bought only 20%. Furthermore, the developing countries purchased 25% of the total exports of Western Europe, while North America took only 7%.

4. *A basic requirement: the restructuring of the central countries' economies*

The trade trends recorded in recent years have once again shown that the past international division of labour is becoming obsolete.

Only a genuine restructuring of the productive forces in the industrial countries which recognizes this fact can lead to healthy and sustained development of the world economy.

In the last few years, the realities of interdependence have been as notable for the industrial countries as for the developing countries, which have long been acquainted with them. In this field, the conspicuous case of energy resources is certainly not the only one.

As clearly pointed out by the Economic Commission for Europe, it should not be overlooked that the proportion of the gross product which Western Europe as a whole obtains from external trade has grown from 10% to 20% in the past two decades. One out of every seven industrial workers in that region works for export. In the United States, one out of every three hectares of agricultural production serves international trade.

Indeed, it might be affirmed that at the present time the old saying could be inverted: whatever is good for the developing world is also good for the industrial world.

On the basis of that principle it would be relatively easy to infer that mutual interest should be found in a genuine restructuring of the economy of the industrial countries, which would generate situations of prosperity that would be reflected in the economies of both the developing and the industrial countries. As Mr. Janez Stanovnik, Executive Secretary of the Economic Commission for Europe, stated very clearly in February 1979, in announcing the results of a study by the secretariat of that Commission on the structural changes and trends in European industry in the past two decades: "Growth and structural change are twins. Dynamic industrial sectors invariably are also the sectors which have been undergoing the most dynamic structural change. Or, if you wish, the countries which have been most flexible in adapting their economic structures towards the sectors of high growth and high technological innovation have also been at the same time the countries of highest economic growth. One lesson therefore comes very clearly from the past: namely that we cannot consider structural adaptation and change in conditions of economic stagnation".

Mr. Stanovnik went on to say that we find ourselves today in a completely anomalous situation in which the total resources that the governments of the industrialized countries spend on subsidies are equivalent to the total value of their imports of manufactures from developing countries. Today they are spending about 2% of their gross domestic product on imports of manufactures from developing countries, and approximately another 2% on different types of subsidies: an anomalous situation which is also closely linked with inflationary trends.

In the light of these facts it is perfectly clear that the solution does not lie in closing the door to trade but in a genuine economic restructuring of the industrial countries which would involve recognition of the new international division of labour which is a primary factor in the construction of a New International Economic Order.

5. *Strengthening Latin America's bargaining capacity*

Finally, I wish to make some observations on what I believe is an urgent imperative: the improvement of the bargaining power and attitude of the developing world, in particular of Latin America.

This bargaining power today faces new challenges and increasing dangers.

The challenges derive from the new attitudes prevailing today on the international scenario which are progressively tending to differentiate between the special situation of the so-called "intermediate countries" —of which most of the countries of the region form part— and that of the rest of the developing countries.

As a result, *de facto* situations are being created which, as I have already said, are reflected in the growing exclusion of Latin America from official development assistance, in the tendency to discriminate between countries and groups of countries in trade matters, in attempts to reduce the resources assigned to Latin America by multilateral financing institutions, in policies aimed at reducing the funds earmarked for multilateral and bilateral

technical assistance, and, lastly, in the segregation of what have been called the newly industrialized countries from the rest of the Third World economies, as in recent reports of national and international development agencies.

A kind of abandonment of the region to its own forces is thus being brought about, precisely when the symptoms of crisis and instability are predominant in the world economy. What is more, the slow progress in the negotiation of the New International Economic Order has prevented the adoption of concrete measures to deal with the specific and frequently urgent problems of the Latin American countries.

The result of these policies and trends and what they might mean in the future has not yet been analysed in sufficient depth by our countries, save for their emphatic rejection in international negotiating forums of any attempt at exclusion or differentiation. We believe that the subject merits detailed consideration in order to deal with it frankly in world discussions and take a stand against the risks which these differentiation policies involve.

These risks arise both in the attitudes of the industrialized countries and in those which might be generated within the developing countries themselves.

In *the attitude of the industrialized countries*, there are in my opinion two serious dangers. The first and perhaps the most serious danger is that it may be believed that the intermediate countries have passed the stage at which they need international co-operation. The facts clearly show that this is not the case. Latin America needs international co-operation and will continue to need it for many years. Its heavy dependence on the international situation, its increasing investment needs, its eagerness to incorporate technology, to mention only a few significant items, are some reasons why the region must have the support of the international community to continue to play the dynamic role it has already assumed, which could be spectacularly expanded in international trade and investment.

The second and equally obvious risk deriving from these attitudes, which is accentuated as the international negotiations fail to

advance at the desired rate, is that of falling into the temptation of thinking that the problems of the New International Economic Order can be negotiated separately or sectorally, both by topics and by groups of interested countries.

This would mean renouncing one of the essential principles of the New International Economic Order, that is to say, its universal and global character. In our opinion, the problems which this New Order is intended to solve cannot be dealt with in watertight compartments. If there is one fact which demonstrates the true situation in the last few years it is the close relationship between the fields of trade, financing, investment and technology. Therefore, it is impossible to deal with one independently of another, and to break that unity of treatment would be equivalent, in our view, to ceasing to deal with the integral essence of the situation and falling into piecemeal approaches which, in the long run, would not lead to the establishment of a fairer and more equitable order in international relation but would merely postpone the real solution to the problems, thus sowing the seeds of future controversy.

Similar risks may be identified in *the attitudes of the developing countries*.

The first is that, owing to the discouragement in the face of the slow progress being made in the international negotiations and the differences in level of development or relative positions *vis-à-vis* the international situation existing among the Third World economies, the unity of the Third World might be weakened or even shattered.

This unity must be recognized as of fundamental importance, for *in a world with such unequal negotiating powers, the negotiating unity of the weakest is essential*. The developing countries, however large, count for very little at the negotiating table if they participate on their own. Furthermore, the developed countries should see in that negotiating unity the assurance of sound and lasting results of such negotiations.

This, of course, does not rule out recognition of the existence of special interests of certain countries or groups of countries in the discussion of the complex and wide-ranging

problems of the New International Economic Order. But such special interests should be identified by the developing countries themselves and dealt with on the basis of the principles of solidarity which should prevail within the group, as well as being claimed in the relations with the central economies.

It is therefore in the appropriate identification of those diversities and in the search for mutual support for the interests of each country that the negotiating unity of the Third World should be found.

The other equally evident risk is that some of the countries of the developing world might fall into the temptation of "going it alone" and might choose to navigate the stormy seas of the international situation on their own. We believe that such an attitude has evident disadvantages and that it would be highly negative both for the construction of a new order and also for the permanent interests of any countries unwise enough to succumb to that temptation.

All this leads us to the conclusion that it is necessary both to strengthen the bargaining power of the developing world, and to provide renewed impetus to the machinery for international dialogue. Mutual interest should be a realistic source of inspiration, but the ethical compulsion generated by the existing inequalities should be the great challenge for the construction of a better world.

Latin American unity is essential for these

purposes, as much for the international dialogue as for progress within the frontiers of the region itself. This is the true meaning of collective self-reliance which, with good reason, is being called for in the developing world.

For us, collective self-reliance is integration. We sincerely believe that the road to regional co-operation has scarcely begun to be travelled. The results I have referred to in the field of formal and informal integration are thus only the first steps.

There are, in fact, a great many opportunities for regional co-operation in the fields of investment, trade, technology and financing. Whether that powerful engine of our growth—regional co-operation—will play an increasing role in our development strategies or not depends on our ability to see clearly where the common interest of each country lies.

A similar comment applies in respect of the possibilities of co-operation between Latin America and the rest of the developing world.

The initial contacts we have made with Africa and Asia have caused us to view with renewed optimism the co-operation potential existing between those regions and Latin America, although taking advantage of that potential undoubtedly requires firm and decisive political support and also a technical information base for the establishment of which CEPAL is prepared to lend its assistance to the governments of the region.

III

Final reflections

In all areas of life in the region, whether economic, social or political, time has not passed in vain for anybody. The region's best asset is perhaps its fund of experience—both successful and unsuccessful—which has been the fruit of long years of travelling the difficult paths of development.

Taking stock of that experience over the last three decades leads to three major conclusions:

The first is that during this period the Latin American economies have undergone a dy-

namic process of growth and transformation. Although varying in intensity in the different economies of the region, this process has brought about substantial changes in the great majority of them. As a result, the economies of Latin America are today very different both in size and in other structural features from the economies of thirty years ago, when CEPAL began its activities.

The second is that in the majority of cases the benefits of this significant economic growth have been distributed most unevenly among

the different groups of society and consequently extreme poverty still affects vast sectors of the Latin American population.

The third is that during this period the forms of Latin America's insertion in the world setting have changed greatly, which, as I pointed out earlier, has brought some favourable consequences, and others less favourable.

Furthermore, it is important that it should be clearly understood that the substantial changes in the political and economic scenarios and in the workings of the international economy which started to take place at the beginning of the current decade and which reached a peak the mid-1970s with the most profound and protracted crisis the industrialized market economies have known since the Great Depression, have radically altered the external factors conditioning our development. The world economic setting of the closing years of this decade is indeed qualitatively and substantially different from that which existed at the beginning of the decade, and therefore to the foregoing conclusions we must add some further points which need to be better defined.

The first of these is that the three processes mentioned earlier have taken on new features, almost all of them unfavourable. The widespread instability of the international economy and the sluggishness of the central economies have been reflected since 1975 in lower growth rates in most of the Latin American countries and a considerable rise in their foreign debt. The simultaneous rise in external inflationary pressures has also meant that at the same time the problems of income distribution have worsened in many of our countries.

A second fundamental point which should be borne in mind concerns the transformations which have occurred in recent years and which are still occurring in the industrialized market economies. The capacity of the central countries to respond to the substantial changes in the international monetary system, the structure of world trade and the supply of certain strategic raw materials has proved to be much more flexible and effective than that of the peripheral countries, and has taken the form of the adoption of measures and the creation of machinery of a defensive nature. As a result of

these responses—whose high degree of co-ordination has contrasted with the dispersed efforts of the countries of the Third World—the influence of the central countries in the bodies responsible for establishing the modalities and machinery which will provide the framework for the workings of the New International Economic Order has remained very great.

A third major event of the present decade, and one of particular importance to the countries of the periphery, was the raising of the price of petroleum. This changed radically—and probably definitively—one of the essential elements on which international trade and the development of the industrialized economies had been based since the war. No less significant for the countries of the Third World, however, was the fact that this was a clear demonstration of the advantages which they could gain by taking joint action to secure better earnings for their primary commodity exports.

Nevertheless, as a result of the rise in the price of petroleum and other changes which occurred in the international economy, as well as the development of the countries themselves, the Latin American countries have tended to differ increasingly in the extent and forms of their insertion in the world economic system. The importance of this fact must not be neglected, since it represents a possible difficulty for the renewal and strengthening of economic co-operation within Latin America at a time when the adverse circumstances deriving from the slow and unsteady growth of the central economies make joint action by the countries of the region more necessary than ever.

It is against this background of the economic and social development trends of Latin America over the long period of growth which came to an end in the middle of the present decade, and of the many profound changes which have occurred in the world economic picture in recent years, that I would ask you to consider the following three major concerns.

1. *How can the great mass of the Latin American population catch up?*

The first problem is to improve the distribu-

tion of the benefits of economic growth. This, as I mentioned before, is a fundamental moral imperative of development policy. The continued existence of situations of extreme poverty and even indigence affecting a large proportion of the Latin American population constitutes in my opinion the clearest and most unacceptable shortcoming of the style of development, which has prevailed in the region. An equally important consideration is that the eradication of extreme poverty, in most of the countries of the region, is now a perfectly feasible objective from an economic standpoint. Once again, as I pointed out earlier, achieving this objective satisfactorily calls for the application of systematic and coherent policies of redistribution accompanied by a high, steady economic growth rate, so that the reduction of social inequality goes hand in hand with a considerable expansion of the domestic market.

2. How can new ideas be introduced into economic relations within Latin America?

This expansion of the domestic market and the foreseeable drop in the economic growth rates of the industrialized countries highlight the need to introduce new ideas into all levels of economic relations within Latin America. In the present circumstances, these have tended to become defensive, in the face of the unfavourable trends stemming from the international economy, so that they constitute a potential on which faster, steadier growth of the Latin American economies could be based.

It is important to realize that this fostering of bilateral, subregional and regional interrelations in Latin America should be viewed as a complement to, rather than a substitute for, the growth of national markets.

Thus, the second major concern which I ask you to consider—one with which CEPAL has been closely associated since its inception—is that of finding the machinery and methods for attaining this objective.

3. How can Latin America's passive insertion in the international economy be transformed into dynamic interdependence?

In a world of increasing economic interdependence, it would be unrealistic for a region

whose performance has depended heavily upon trends in international trade and finance to set its sights on autarky. Neither the expansion of domestic markets nor a greater degree of economic interrelation in Latin America should be seen as means of reducing their degree of insertion in the world economy. Quite the opposite. The export capacity of the countries of the region should increase and the vigorous process of growth and diversification of exports should be pursued. At the same time, the rising level of income of the Latin American population will swell the volume of imports.

The challenge lies precisely in thinking out how to enable the countries of the region to make maximum use of the opportunities offered by their position in world economic flows while minimizing their negative effects; how to play an active role in the design of the rules of the game governing trade and financial flows, instead of being relatively passive participants; and how to reconcile the economic policy requirements needed to attain these objectives with those required to achieve the growth and redistribution targets.

The dialogue on the New International Economic Order begun some years ago points in this direction, and we must continue to emphasize the set of topics it comprises, and devote all our powers of imagination and negotiation to developing it.

I have ventured to single out only these three fundamental concerns. Neither their number nor the order in which I have mentioned them are the result of an intellectual whim. On the contrary, they represent the secretariat's conviction that there is a deep interrelationship and interdependence between them. An expansion of national markets which is not accompanied by joint regional and subregional action and lacks a proper insertion in the world economy could result in a state of technologically backward semi-autarky, while an external insertion lacking these national and regional dimensions could represent an extremely vulnerable and dependent style of development.

Finally, I wish to pause for a moment to examine the implications for CEPAL of the identification of the three major concerns to which I have referred. The fact that I have

limited myself to stating them and have not attempted to suggest ways of solving them is deliberate, since my main purpose is to elicit guidelines from you for our future activities.

Naturally, the secretariat has some ideas in this respect, and these are contained in the documents which we have submitted for consideration at the session. We are, however, far from understanding all the consequences and implications of the topics which I have ventured to cover in this report. Still less do we have all the answers about how the region as a whole and each country in particular can face up to these challenges in the new and ever-changing conditions characteristic of the present world economic picture.

This is, in my opinion, one of CEPAL's principal tasks in the immediate future: to re-examine our thinking on Latin American economic development and adapt it to the context of a rapidly-changing world and of a growing variety of options within the region itself. This is the challenge which the secretariat must tackle in the future, and whose dimensions and implications we hope to be able to begin to examine—at least roughly, to begin with—when working out a new International Development Strategy for the region.

We know what disappointment many of these exercises have caused in the past, but it is important to renew our interest, by updating the approaches to the preparation of a new strategy.

The opportunities opened up to us by the dialogue on the strategy are many and varied. On the one hand, we are encouraged to reflect on our own internal problems, and while this exercise of course constitutes a sovereign task for each country, the dialogue can stimulate

that reflection and enrich it with the cumulative experience of each and every one of our countries.

On the other hand, the discussion of the strategy can explicitly include a constructive debate on the possibilities and limitations of regional co-operation, so that it can thus be converted into support for the political task which must be carried out in order that regional co-operation may be renewed and hence accentuate its dynamic role in our development process.

Lastly, the discussion of the strategy will provide a further opportunity both to place the problems of the New International Economic Order within the context of a broader perspective, and to establish specific goals for international action by the governments of the region.

Understood in those terms, the International Development Strategy should not be, as it was in the past, an exercise conceived only at the world level and from the centre of the United Nations system. Such an exercise, though undoubtedly valuable, should be supplemented by a regional view which, translating the global goals into regional objectives, will stimulate dialogue and co-operation among us.

CEPAL has always been intimately committed to this task. Today we wish to renew this commitment, placing ourselves at the governments' disposal in this enterprise.

It is in this spirit, and conscious of the positive contribution which this discussion could make, that I venture to suggest to you that the Commission should proclaim as one of its great tasks for the future the preparation of the *Strategy for the Third Development Decade* for the region.

The periphery and the internationalization of the world economy

Significance and
consequences

*Aníbal Pinto**

It is an accepted fact that the process of internationalization of the world economy has expanded considerably in the last few decades. The author begins by examining the historical background of this process, and after emphasizing that it is not limited to the economic sphere—since it is also seen in the international dissemination of ideas, institutions and ways of life—he goes on to analyse in particular the economic internationalization recorded since the Second World War. After thus defining his subject, he reviews various expressions of internationalization in trade, capital movements, investments, the activities of transnational enterprises, and so on, with special attention to the way in which this process has influenced the periphery.

Taking this analysis as his basis, he concludes that internationalization has continued to be centered around the developed countries, and that the periphery has only participated in it in a partial and selective manner, thus preventing it from being transformed into the image and likeness of the developed capitalist countries. This has been largely due to the fact that the internationalization process has taken place in an international economic structure in which the centres set their stamp on the system as a whole and impart their own type of dynamism to it. In these circumstances, it is clear that the long-lived system of centre-periphery relations cannot change through the expansion of the present internationalization process and that this can only be achieved by making substantial changes in the manner in which the periphery is incorporated in the world economy.

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a) *A brief historical sketch*

Among the waves of interest in particular subjects which periodically arise and predominate in the general discussion, few in recent times have been more vigorous and widespread than that regarding the “internationalization” of the world economy.

As usually happens, it was a few traumatic episodes—the world monetary crisis which burst upon us at the beginning of this decade, the parallel rapid increase in the prices of many primary commodities, followed a little later by the radical change in the price of oil, together with the beginning of a phase of “stagflation” in the central countries which has cast its shadow over the entire world scene—which gave rise to general awareness of this harsh underlying reality.

Although this matter clearly goes beyond the scope of the present modest study—as is shown by the mountains of documents written about it—it might be worth identifying and systematizing some of its main aspects in order to understand it better.¹

In order to place this study on a systematic basis, the general features of the phenomenon will be examined and an attempt will be made to bring out their continuity and the elements of change and novelty with regard to tendencies which have old historical roots. The aim is to see if they have modified the basic structure of the centre-periphery system and, in particular, if there has been a change in the links between the two spheres and in this system’s representation of the world economy. We will not go into the question of this interdependence in depth, however, except in a few special aspects and in drawing up the final balance. Further on, we shall examine in greater detail the progress of Latin American internationalization since the war, the problems it raises, and the options which are to be glimpsed for the future.

The primary sense of the process under consideration could not be clearer and goes back, as everyone knows, to a past which is now far removed, at least from the viewpoint of present-day society. It corresponds to and

¹It should be noted that a necessarily selective criterion has been adopted with regard to the background information and bibliography used.

is expressed through the gradual and many-faceted process of assembly of the various local, regional, national, continental and other components of the world jigsaw puzzle. Originally set in motion by the great imperial structures of yore and of more recent times, the exploits of sailors, explorers and colonizers, the progress of science and technology and the dissemination of religious and political beliefs, it took an important leap forward with the advent of commercial and industrial capitalism. By way of technology, trade, the profit motive and competition and —when necessary— the undisguised use of force, this historical formation assails either directly, indirectly or surreptitiously all the secluded areas, particular features and enclaves of whatever type, unleashing pressures which tend towards a growing interlinkage and —within certain limits and characteristics to which we shall refer later— homogenization of the various pieces making up international society.

The two great nineteenth century currents of thought in this field, the classical liberal and the Marxist approaches, shared to a considerable extent some basic assumptions regarding these tendencies and consequences, although they differed radically in their critical appraisal of these.²

²Summing up the criterion of the first group, Professor Rosenstein-Rodan noted in an admirably lucid study that:

“The classical doctrine was based on the principle of competition and the mobility of capital. The poor countries had abundant labour but were short of capital. Wages were low, and it was of advantage for capitalists to invest in these countries and take advantage of this fact. International movements of capital would be oriented towards areas where there was abundant cheap labour, and so, in the long run, they would tend to reduce the differences in real wage levels” (“Las razones del atraso económico”, in *Panorama económico* (Santiago, Chile), N.º 94, February 1954).

The founders of Marxism, for their part, in one of the most widely disseminated documents of that ideology, saw the world repercussions of capitalist dynamics in different terms: In exploiting the world market they said, the bourgeoisie has imparted a cosmopolitan nature to the production and consumption of all countries, so that instead of the old system whereby needs were satisfied by the countries' own production, new needs arise which have to be satisfied with products from the remotest regions and climes. In the place of the old isolation and local and national autarky, unlimited traffic and the

To a certain extent, these visions did materialize, but the manifest and significant internationalization which took place was very far from disseminating to all points in the globe the logic and structures of industrial capitalism, and still less did it promote the homogenization of production systems and social conditions. Rosenstein-Rodan summed up the balance sheet of this opening phase of the centre-periphery complex in the following terms:³

“Between 1815 and 1914 we had an exceptional century of peace, which is quite a long time even for classical economists and during which technical and economic progress was stupendous. During this century all the postulates of the classical economists were complied with: minimal government intervention, free trade, high international investment and, what is more, not only the free movement of capital but also great mobility of the labour factor in the form of international migrations.

“The first part of the predictions of the classical economists was fulfilled, in that the century did witness a great increase in wealth. The second part proved blatantly unfounded, however, since most of the increase in wealth was enjoyed by only 30% of the world population, with the other two-thirds remaining as poor as before.”⁴

This period, which coincides with the rise and fall of the so-called “Pax Britannica”, ended with the First World War and the Great Depression, which involved —among other things— the paralyzation and subsequent retreat of the tendencies towards integration as well as of those towards fragmentation into different more or less exclusive areas of influence of the great capitalist powers.

b) *The internationalization of the post-war period*

After the prolonged interregnum which began with the First World War, was accentuated with

interdependence of the nations have been introduced (*Communist manifesto*, 1848).

³Rosenstein-Rodan, *op. cit.* This analysis forms part of his concept of the so-called “big push”. See in this respect H. Ellis (ed.), *Economic Development for Latin America*, New York, St. Martin's Press, 1961.

⁴It hardly seems necessary to note the similarity

the Great Depression—after the brief recovery during part of the 1920s—and closed with the dawning of peace in 1945, the process of internationalization began again on a more extensive and dynamic level, covering the period up to the mid-1970s, when the traumatic events referred to earlier checked its further progress and gave rise to serious uncertainty as to the nature of its subsequent development.

The resumption of this historical tendency took various paths and operated at all levels.

As in the past, while tending towards the horizontal articulation of the most developed economies it did the same thing in a vertical direction, drawing the periphery into this process, and while nation-States are obviously its main protagonists, there are other actors—such as transnational enterprises—which play roles of growing importance in which they back up and sometimes, as has happened more recently, even surpass or take the place of the first-named actors, all of this in a dynamic and contradictory play of congruences and conflicts.

Furthermore, this historical tendency deploys itself through the most varied channels. Although a sound case can be put forward for claiming that its main fulcrum was formed by the changes in the system of production and the corresponding international linkages, it is also true that there are other important circumstances connected with this, which warrant a quick glance before devoting ourselves to our real field of analysis.

(c) *The political and ideological factor*

One of these circumstances, although not always prized at its true value, is the political dimension and, more specifically, the multiple incidences of the so-called “cold war”.

This phenomenon is, it is true, apparently contradictory. Viewed from the most usual angle, it appears as a factor of division and dispute between basic segments of the world

conglomerate, but at the same time it plays an undoubted role as an agglutinating factor, both of the blocks which are in dispute and within them (for example, the formal and *de facto* integration of Western Europe and the corresponding situation on the Eastern European socialist side),⁵ to say nothing of other repercussions along the same lines such as the grouping of the “non-aligned countries”.

Among the few who have correctly evaluated the significance of this situation and of the possible implications of subsequent *détente* is that great thinker José Medina Echavarría. Therefore, in spite of its length, it is worth reproducing one of the propositions that he set forth in a challenging work published shortly before his lamented death.⁶

“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 pro-

⁵The Chinese-Soviet conflict represented a substantial inversion of this process, but at the same time it implied the development of other links by China, now with the Western powers and Japan, and perhaps in the future with South-East Asia.

⁶José Medina Echavarría, “Latin America in the possible scenarios of *détente*”, in *CEPAL Review*, N.º 2, second half of 1976, p. 22.

between this reasoning and that set forth by Raúl Prebisch in the *Economic Survey of Latin America, 1949* (United Nations publication, Sales N.º: E.51.II.G.1) regarding the slow and irregular propagation of technical progress from the countries which generate it to the rest of the world.

duced when attempts to eliminate it or diminish it lead to the introduction of shades of colour in the depiction of its features.”

Let us repeat in passing —because of the importance which this has for the analysis below— that the phenomenon of the “cold war” is an essential ingredient for the dynamism and the unity of the central economies, since it relegates to a minor position obstacles and disputes which were previously of great importance.⁷

An inevitable concomitant of this political situation has been what might be called “ideological internationalization”. Of course, this is not a completely novel phenomenon, and it would be impossible to ignore, for example, the distant reflections of the Enlightenment and of the French and Russian revolutions. Its modern version, however, has acquired such scope and extension—both geographical and social—that it dwarfs everything that went before it. Thus it was that even in the furthest and darkest corners of the earth, with peoples and economies at various pre-feudal stages and structures, the ruling circles and sometimes also the masses began to unite and struggle for categories historically rooted in European society, such as liberal democracy, socialism, or the dictatorship of the proletariat. This subtle but incisive form of imperialism, responsible for so many errors and distortions on the periphery, represents a chapter of the present state of affairs which has been little studied, in spite of its enormous importance.⁸

⁷With reference to this matter, Herbert Marcuse put forward the shrewd and provocative thesis that while it is evident that there are many contradictions between the imperialist powers which it is not necessary to list in detail, it is not likely that these contradictions will give rise to wars between the capitalist countries in the future. This is one of the respects in which coexistence shows how decisively important it is for the stabilization of capitalism. Up to a certain point, it can be maintained without the slightest cynicism that in reality Communism has become the doctor sitting at the bedside of capitalism (although it remains to see exactly in what sense). Without Communism, it would be difficult to explain the economic and political unification of the capitalist world: a unification which more or less seems to be the materialization of the old Marxist spectre of the worldwide cartel. It should be noted, moreover, that this integration of the capitalist world is not something superficial but rests on an extraordinarily real economic base (from *Industrial society and Marxism*).

⁸China’s “own way”, which claimed to be different

(d) *The transmission of the consumerist way of life*

Another aspect which enters into the present discussion and is familiar to all is the dissemination and copying of the ways of life, the *mores*, of the central societies. More specifically, this means the transfer and absorption of their consumption patterns, which become the supreme objective of those enthralled by their influence. In other words, this concerns the recurring theme of the demonstration effect and the giddy “consumerist” spiral which is its most striking result.

This internationalization of habits and aspirations, as well as constituting another basic ingredient in the overall process, is *relatively* independent, it should be noted, of the production substrate and the levels and changes of the economic structure. Although the motive force and the effective social incidence are naturally different, the winds which carry this phenomenon blow just as strongly in a small Central American country as in Argentina, Algeria, the Philippines or Nigeria, and they even reach the socialist world, although of course only to a limited extent. In short, as we shall see later on, the internationalization of consumption patterns advances much more rapidly than that of modes of production.⁹ As Raúl Prebisch recently noted: “...The periphery is by no means backward in the propagation

from the ways of both the capitalist West and the USSR, actually fell —despite the original contributions of Mao Tse-Tung— within strict Marxist orthodoxy, although the actual socioeconomic practice was more or less heretical in fundamental aspects in comparison with the European socialist or capitalist experiences.

The new circumstances of China’s external links and internal “modernization” have naturally considerably modified this picture.

See in this respect the reflections of Celso Furtado in *Creatividade e Dependência*, Rio de Janeiro, Editorial Paz e Terra, 1978.

⁹This is not the place to go into the implications and problems of this dissociation, which in any case has been dealt with on a number of occasions in CEPAL studies. In these, emphasis has been placed on the great contradiction underlying the attempt to reproduce the consumption structure characteristic of the central economies in countries whose low average level of income (and productivity) is only a small fraction of that which is usual in the former. Herein lies one of the main causes of the tendencies towards concentration of income and the inevitable passing over of the basic needs of the majority.

and irradiation of the more and more technically more advanced patterns of consumption. Consumption —the consumer society— is therefore being rapidly internationalized, whereas in contrast formidable obstacles are encountered by the internationalization of production from the standpoint of foreign trade.”¹⁰

Paraphrasing a well-known statement, it could be said that something similar is happening at the international level to what is taking place in national circles, in the sense that the leading society —not the leading class any longer— sanctifies and imposes its values and habits beyond its own frontiers, with greater or lesser force depending on the permeability of the local situations.

This is not a new question, either. In Latin America, for example, this topic has been frequently discussed ever since last century, leading to the coining of the well-known saying that “we are civilized for consuming but primitive for producing”.¹¹ Its present proportions and significance, however, show a qualitative change with regard to the situation which used to exist.

A significant factor in this, of course, has been the formidable progress of the means of communication and the part played by the transnational enterprises. No further comment is called for on this, as it is already sufficiently well known, but there are some other factors, such as the change in the origin of the centres of irradiation and the nature and social destination of a considerable part of the types of consumption disseminated, which have received less attention.

Until probably about the time of the First World War, it was Great Britain and France which set the patterns of selective consumption transmitted to the moneyed classes on the periphery, but filtration of these patterns to the small middle classes and the great masses was minimal or non-existent.¹² The emergence of

the United States as the leading power radically changed this picture,¹³ and the “élite” types of consumption were forced into the background by the consumption of goods of generalized and massive use, this being made possible by the high level of average income, its more equitable distribution (more equitable, that is to say, compared with the more highly stratified European societies of the pre-war era), the size of the market and its vigorous rate of expansion.

The nature and smaller unit values of a large part of these goods are associated with the growing social diversification observed in the peripheral economies, whose growth rates were increased and changed by the increase in primary exports and complementary activities, the expansion of the State machinery, and subsequently the advance of industrialization.

While the higher-income groups continue to be the main recipients of this irradiation of consumerism —and generally the only ones as far as the goods of higher unit value are concerned— the new circumstances described mean a considerable expansion of the social field involved.¹⁴

Thus, the internationalization of consumption patterns is founded upon and expands from the basis of a myriad of common goods which are repeated in different degrees even in the furthest-flung corners of the world and are promoted primarily by the great United States sales machine, increasingly accompanied by similar machines of other countries.¹⁵

tion were a number of well-known goods ranging from Limoges or Rosenthal china, Baccarat glassware or Sheffield cutlery to English textiles, Italian silks and Havana cigars.

¹³See in this respect D. Felix, “Changing consumer preference in economic growth”, St. Louis, Washington University, 1978.

¹⁴See C. Filgueira, *Consumo y estilos de desarrollo*, CEPAL, DS/Preliminary Version/190 (mimeo), March 1979.

¹⁵These goods include such items as blue jeans, Coca-Cola and razor blades; common household appliances, chewing gum and deodorants; ice cream, cigarettes, transistor radios and T-shirts. In addition, within the more restricted circle referred to earlier, there are such products as motor cars, television sets, etc.: i.e., the costly durables which are mainly responsible for the contradiction referred to earlier in this study. Finally, in the “cultural” sphere, the main harbingers of this trend have been such items as comics, jazz, the cinema and the best-seller industry.

¹⁰Dr. Raúl Prebisch, “Socioeconomic structure and crisis of peripheral capitalism”, *CEPAL Review*, N.º 6, second half of 1973, p. 183.

¹¹These words were said by Enrique Molina, the late rector and founder of the University of Concepción in Chile, but the same idea is repeated in many countries.

¹²The leading products in this “élite” type of consump-

Although these are the most visible and ubiquitous manifestations of this phenomenon, care should be taken to avoid a pejorative unilateral appraisal of the nature of the phenomena, as sometimes happens in certain circles. Internationalization also makes it possible to share in the scientific, technological and cultural riches of the more advanced countries. The positive nature of these impulses towards homogenization is to be seen at the most varied levels, from the heights of pure science to the progress in everyday technical and productive activities, to say nothing of the fundamental contribution to the preservation of life and health. The humble aspirin, penicillin or anti-polio vaccine are vivid illustrations of the historic revolution which has taken place in this field.¹⁶

We must now end this brief digression on some of the less widely covered aspects of this question in order to analyse the outstanding economic effects of this phenomenon and its general significance for the centre-periphery system.

(e) *The economic dimensions:
international trade*

The course of world trade and its performance *vis-à-vis* national products, on the one hand, and the evolution of investments and loans on the other, are usually considered as the most significant phenomena regarding the topic under examination, without prejudice to the also important role of migrations and of the incorporation of the labour force into the world system, which we referred to earlier and to which we will return at a later point.

¹⁶Radical thinkers of the past, unlike certain present-day critics, had a very clear picture of the contradictory incidences of internationalization as effected under the aegis of industrial capitalism. Among many other references, we may recall a well-known reflection of Leon Trotsky in his *History of the Russian Revolution*: "The privilege of long-standing backwardness —and this privilege does exist— permits and even forces the adoption of any advance which is available ... without going through any of the intervening stages. Thus, savages changed their bows and arrows for rifles, without following the long path which existed between these arms in the past". Although the image used is not perhaps the most felicitous one for evoking the comprehensive nature of this phenomenon, it does suggest its main features.

From these two main angles, it is easy to see how the tendencies towards internationalization were intensified in the period after the Second World War.

With regard to the first element, let us look at some interesting details from various points of view.

Taking a global view, table 1 shows that world exports grew more rapidly than the sum of the domestic products and industrial activity between 1950 and 1970. South America is a conspicuous exception to this, since in its case the first of these factors shows a smaller expansion than the other two. It would therefore appear that in this period it represented the most typical case of "inward-oriented development". It may be noted that even in the Soviet Union, where exports were mostly directed to its own sphere of influence, they exceeded the performance of the other items, while in the case of Asia exports at least exceed the increase in the domestic product.

Table 1

INDEXES OF EXPANSION OF THE
WORLD ECONOMY, 1970
(1950 = 100)

	Gross domestic product	Industrial product	Exports
<i>World</i>	270	280	385
North America	210	250	295
Europe	260	310	470
Soviet Union	435	700	740
South America	250	300	195
Asia	325	820	440
Africa	—	—	305

Source: CEPAL, *Economic Survey of Latin America, 1971* (United Nations publication, Sales N.º: E.73.II.G.1).

From another point of view, table 2, which covers periods coinciding with the intensification of this kind of behaviour (1965-1970 and 1970-1973), reveals that the rate of expansion of exports as a whole with respect to the components in question was considerably higher than that of production as a whole. The

gap is smaller in the group of developing countries (although it does increase somewhat in 1970-1977), the situation being most marked in the case of Latin America, which registers the relatively lowest rates of increase of exports.

sectors considered (agriculture, mining and manufacturing) show the same tendency, but manufacturing is far ahead in the growth of exports, for between 1960 and 1977 these grew by 326% with respect to the base year, whereas agricultural exports only grew by 81%.

Table 2

WORLD GROWTH AND TRADE, BY
MAIN ECONOMIC GROUPINGS
(Annual growth rates, at constant prices)

	1965-1970	1970-1973
1. <i>World as a whole</i>		
Product	5.4	6.0
Exports	9.1	9.4
2. <i>Developed market economies</i>		
Product	4.6	5.1
Exports	9.5	9.5
3. <i>United States</i>		
Product	3.1	4.8
Exports	6.5	10.3
4. <i>European Economic Community</i>		
Product	4.8	4.2
Exports	11.2	10.0
5. <i>Japan</i>		
Product	11.5	8.9
Exports	14.9	10.5
6. <i>Developing countries</i>		
Product	5.9	6.3
Exports	6.8	8.9
7. <i>Latin America</i>		
Product	5.9	6.7
Exports	4.5	6.3

Source: United Nations, *World Economic Survey, 1977* (United Nations publication, Sales N.º: E.78.II.G.1) and *United Nations Statistical Yearbook, 1976* (United Nations publication, Sales N.º: E/F.77.XVII.1).

(f) *Industrialization and the centralization of flows*

Similar tendencies are observed when the problem is considered from a sectoral viewpoint, but this has the advantage of bringing in a qualitative aspect of the overall evolution which is of prime importance for the analysis. As will be noted from table 3, the three main

Table 3

WORLD PRODUCTION AND EXPORTS,
BY SECTORS, 1960-1977

	Annual growth rate	Variation 1960-1977
<i>Agriculture and stock-raising</i>		
Production	2.5	51
Exports	3.6	81
<i>Mining^a</i>		
Production	4.3	103
Exports	5.0	129
<i>Manufacturing</i>		
Production	6.0	170
Exports	8.9	326

Source: FIDE, Buenos Aires, *Coyuntura y Desarrollo*, N.º 5, January 1979, on the basis of data from GATT.

^aIncluding fuels and non-ferrous metals.

If we take a broader time horizon, this tendency appears even more clearly (see table 4). In the course of the long and irregular cycle between 1900 and 1950, world manufacturing production expanded at an average rate of 2.8% per year, whereas external trade only increased by 1.7% per year. Between 1950 and 1975, in contrast, manufacturing grew by 6.1% and external trade by 8.8% per year; over the same period, industrial exports rose from 43.2% to 64.4% of total trade, and if fuels, whose share increased notably after 1973 are excluded, the increase is from 48.5% in 1950 to 76% in 1975.¹⁷

¹⁷CEPAL, *Analysis and prospects of Latin American industrial development*, ST/CEPAL/Conf. 69/L.2, 8 August 1979.

Table 4
 WORLD GROWTH OF INDUSTRY AND
 TRADE IN MANUFACTURES
 (Percentage growth rates)

	1900-1950	1950-1975
Production of manufactures	2.8	6.1
Trade in manufactures	1.7	8.8

Source: CEPAL, *Análisis y estructuras del desarrollo industrial latinoamericano*, op. cit.

The preferential action of internationalization through manufacturing has an obvious and well-known result: the growing role of the industrialized economies in world trade and the increasing importance of the links within that group of countries.

We thus arrive at a clear expression of the aspect which is perhaps fundamental in the change of structure between the two scenarios under consideration: that before the great depression (or before the First World War, if preferred) and that subsequent to 1945.

In dealing with this question, Aldo Ferrer notes that the growing integration of international trade, the movement of capitals and emigration were expressed through three main channels: the exchange of primary commodities for manufactures between the centre and the periphery; the trade in primary commodities between the industrialized economies, and the trade in manufactures between the same countries.¹⁸

In the first period, extending up to the First World War, the first two channels predominated to an overwhelming extent, the main position, particularly in the field of tropical and mineral products, being occupied by the centre-periphery flows.¹⁹ In the stage after the

Second World War, however, it was the third form of expansion which predominated.

In other words, internationalization through external trade leads to *industrialization* on the one hand and *centralization* on the other.

Some illustrative details were already given regarding the first of these.

With regard to the second of these phenomena, it should be borne in mind that at the beginning of the 1970s (1970-1972) trade between the central economies represented 77% of the total (this figure went down slightly in subsequent years). At the same time, they received around 73% of the exports from the periphery and 24% of those from the centrally planned economies, the latter figure rising to 29% in the years 1976-1977.²⁰

Table 5, for its part, shows the changes in the shares of the main groups of countries in world trade between 1950 and 1975, the most notable features being the increase in the share of the central economies from 62 to 66% and the drop in the share of the non-oil-exporting peripheral countries from 24 to 10%. This table also reveals the change among the central countries to the detriment of the United States and to the advantage of the European Economic Community and Japan, although this is doubtless influenced by conditions in the base year, when the post-war reconstruction process was hardly beginning.

This confirms what was already pointed out regarding the centripetal tendency of world trade and the loss of relative significance of the periphery during the period under consideration.

At the same time, however, it is essential to make a distinction between this structural variation and the appreciable and generalized growth of trade already referred to. Even in the case of the underprivileged periphery, the

raw materials. The period of fastest expansion was between 1870 and 1913 ... when ... around 70% of European imports were made up of primary commodities and nearly two-thirds of the total imports of the United States—despite its formidable endowment with natural resources and capacity for commodity production—consisted of foodstuffs and raw materials”.

²⁰CEPAL, *Economic Survey of Latin America, 1977* (E/CEPAL/1050/Rev. 1), Santiago, Chile, 1978.

¹⁸Aldo Ferrer, “América Latina y los países capitalistas desarrollados: una perspectiva del modelo centro-periferia”, in *El Trimestre Económico* (Mexico City), N.º 169, 1975.

¹⁹As A. Ferrer says in the study referred to above: “In the seventy or eighty years before the Second World War, two-thirds of world exports were made up of foodstuffs and

Table 5
SHARES OF MAIN ECONOMIC AREAS
IN WORLD TRADE

	Exports FOB	
	Percentage share in total	
	1950	1975
A. Developed market economy countries	60.2	66.3
United States	16.6	12.2
Canada	4.7	3.7
European Economic Community (EEC) (9 countries)	26.5	33.9
European Free Trade Association (EFTA) (8 countries)	5.6	6.1
Japan	1.3	6.4
Others	5.6	3.8
B. Centrally planned economies	8.1	9.8
Eastern Europe	6.8	9.0
Asia	1.3	0.8
C. Developing countries	31.7	23.9
Oil-exporting countries	7.3	13.4
Non-oil-exporting countries	24.4	10.5
Africa	4.0	1.8
Latin America	10.4	3.9
Asia	9.1	4.3
Middle East	0.8	0.4

Source: CEPAL, *The economic and social development and external economic relations of Latin America* (E/CEPAL/1061), vol. II, 1979.

drop in its total share did not prevent the annual growth rate of its exports from amounting to 7.6% (6.8% for Latin America) in the period 1950-1975. This growth rate may be compared with that recorded by commodity exports in one of the most vigorous phases of past growth (1871-1913), when they expanded at the rate of 3.5% per year.²¹

Strictly speaking, then, that fundamental readjustment represents the relative relegation of a large part of the periphery to a second place, rather than its exclusion from the great wave of internationalization through external trade.²²

²¹A. Ferrer, *op. cit.*

²²This appraisal would appear not to be valid, however, for the countries which the World Bank has classified

Obviously, the big exception to these changes appears after 1973, with the substantial rise in oil prices (see table 5), which will be discussed later on.

Another noteworthy element of undoubted importance is the growing share of industrial exports by the periphery, which to some extent reduce its relative losses.²³

Between 1960 and 1975, at constant prices, these exports grew at 12.3% per year, which was twice as much as the total exports of those countries and also compares favourably with the growth rate of world trade in that period, which was 7% per year.²⁴ In the case of Latin America, this meant that the share of manufactured goods rose from 13% of its exports to 23% between 1970 and 1975, and this tendency was maintained subsequently, despite the deterioration in the international situation.²⁵

It is worth recalling, however, that this performance has been limited to a small number of countries on the periphery: a feature which is also to be noted in Latin America, although to a smaller extent.

Without anticipating the recapitulation which will be made later on in this study, it may be stated that the details given regarding international trade not only bring out its significant role in the development of internationalization but also highlight certain changes and tendencies which show the different implications it has for the centres and the periphery.

as those of lowest income, among which are a number of countries with very large populations, such as India (620 million), Indonesia (80 million), Bangladesh (80 million), and Pakistan (71 million). Their exports increased by 3.6% per year between 1960 and 1970, but went down by 0.4% between 1970 and 1976. See *World Development Indicators*, Washington, The World Bank, 1978.

²³Professor A. Lewis's optimistic judgement on this matter is of interest. In the *Evolution of the International Economic Order* (The Eliot Janeway Lectures, Princeton, N. J., Princeton University, 1971), he notes that as far back as 1975 manufactures made up 33% of the exports of the developing countries (excluding the oil-exporting countries), and if the present tendency continues, by 1985 they will represent more than half. In his view, the division of the world into developing countries which export agricultural products and import manufactures and developed countries which do the opposite is on the point of ending.

²⁴See "The changing composition of developing country exports" by H. B. Chenery and D. B. Keesing, in *World Development Report, 1978*.

²⁵CEPAL, *Economic Survey of Latin America, 1977*, *op. cit.*

g) *The role of movements of capital*

It seems superfluous to recall the correlation—not necessarily symmetrical—between trade flows and capital flows, which, as we already noted, constitute the economic fulcrums of the internationalization process.

As regards the second of these, we shall limit ourselves to the analysis of direct investments and their fundamental agents, the transnational enterprises. We shall therefore leave aside everything connected with financial flows, the size and composition of which have undergone great changes during this decade. Quite apart from the fact that many valuable studies have been made on this subject,²⁶ it

has been assumed here that the combination of direct investment and transnational enterprises (which of course has projections on to the financial level) has more significance from a structuralist point of view.²⁷

From the comparative viewpoint of the continuity and contrasts between the experience of the past and that subsequent to the Second World War, the interesting points in this connexion are those connected with the growth rates and forms of capital movements, the spatial distribution of the resources and their sources, and their sectoral destination, all of which are essential considerations for appraising their incidence on the general question under consideration.

Table 6

WORLD CUMULATIVE DIRECT INVESTMENT IN THE DEVELOPED COUNTRIES
AND IN THE VARIOUS DEVELOPING REGIONS

	Millions of dollars at end of year		Percentage breakdown		Annual percentage growth rates
	1967	1975	1967	1975	1967-1975
<i>World investment</i>	105 300	258 900	100.0	100.0	11.9
Investment by United States	56 600	124 200	53.8	48.0	10.3
<i>Investment in the developed countries</i>	70 172	186 500	66.6	72.0	13.0
<i>Investment in the developing countries</i>	35 128	72 400	33.4	28.0	9.5
In Europe ^b	2 000	6 400	1.9	2.5	15.6
In Africa	6 600	11 100	6.3	4.3	6.7
In Asia	5 000	17 300	4.7	6.7	16.8
In the Middle East	3 100	...	2.9
In Latin America (23 countries plus other territories)	18 400	37 600	17.5	14.5	9.3
In Latin America (19 countries)	15 250	27 750	14.5	10.7	7.8
Brazil	3 728	9 100	3.5	3.5	11.8
Mexico	1 787	4 800	1.7	1.9	13.1

Source: CEPAL/CTC, *Documento de Trabajo* N.º 12, September 1978.

^aNot including the Middle East.

^bIncluding Austria, Cyprus, Finland, Gibraltar, Greece, Greenland, Iceland, Ireland, Malta, Spain, Turkey and Yugoslavia.

²⁶See, for example, C. Massad, "The revolt of the bankers in the international economy: a world without a monetary system", *CEPAL Review*, N.º 2, second half of 1976; R. Devlin, "External finance and commercial banks", *CEPAL Review*, N.º 5, first half of 1978 and "Commercial bank finance from the North and the economic development of the South: congruence and conflict", which appears in the present issue of *CEPAL Review*.

²⁷It should, however, be noted that the changes in the composition of the loans—highlighted in the studies referred to— involving an increase in the share of private lenders and borrowers at the expense of the share accounted for by loans made by governments or international agencies to other governments or public sectors also constitute a significant structural modification, although of more uncertain durability.

As regards growth rates, there is no information which permits a proper comparison of the experience of the two periods, although there are significant data on their vigour in the first of these periods.²⁸ We shall have to content ourselves, then, with the information collected for a relatively recent period, which is presented in table 6 and figure 1. What immediately stands out is the overall growth rate of almost 12% per year, which is more than that cited above for the world product and exports (see table 2).

The rate of growth is strongest in the central countries, particularly in Europe, and in Asia (almost 17% per year), due to the well-

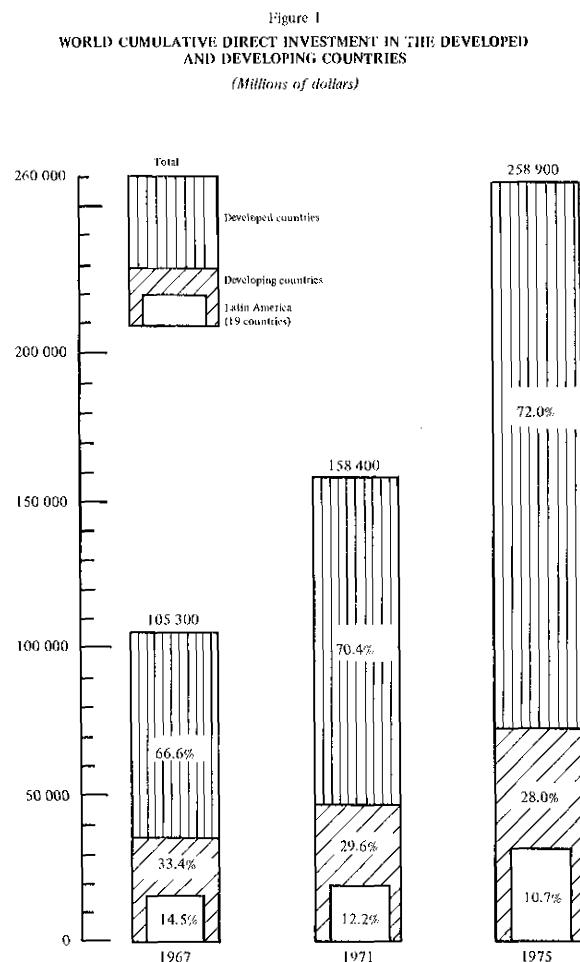
known weight of the small group of industrial exporting economies. In contrast, the rate for Latin America is slower, although it rises somewhat in the case of Brazil and Mexico.²⁹

As regards the spatial distribution of the export of capital and the sources from which it came, the situation in the nineteenth century was very clear. Despite the considerable representation of centre-periphery trade, the truth is that during this period the predominant movements of capital were the horizontal circulation within Europe and to the United States and Canada and the vertical circulation to the British colonies. Argentina was the most conspicuous exception to this, for well-known reasons.³⁰ If this country is excluded, about two-thirds of the total investment around 1913 was concentrated in the first group.³¹ This fact, and the scanty mobility of the peripheral labour force to the centres, were the main reasons for the frustration of the classical optimism about the dynamizing and homogenizing effects which would be caused by the expansion of industrial capitalism to the exterior.

Developments after the war confirmed this tendency and structure: the rapid growth of the total accumulated direct investment was concentrated mainly in the developed economies, whose share rose from 66.6% in the first year mentioned to 72% in the second (see table 6).

It is also interesting to examine the unfolding of this inclination from other viewpoints.

As regards the origin of the flow, the supremacy of the British source of supply in the



²⁸See the important study prepared by CEPAL in 1965, *External financing in Latin America*, E/CN.12/649/Rev. 1; Sales N.º : E.65.II.G.4.

²⁹It should be borne in mind that a considerable part of the accumulated value is accounted for by the reinvestment of profits made in the same country. A study on the situation regarding United States investments showed that such reinvestment of profits represented a little over 50% of the cumulative total between 1966 and 1976. See US Department of Commerce, *Survey of Current Business*, Washington, August 1977.

³⁰A. Ferrer, in *La economía argentina* (Mexico City, Fondo de Cultura Económica, 1963), notes: "From the second half of the nineteenth century onwards, Argentina received a substantial proportion of the flow of capital ... to the developing areas ... the capital invested in this country rose from practically nothing in 1860 to 2.5 billion dollars at today's prices (1962) in 1904 and nearly 10.5 billion dollars in 1913.

³¹A. Lewis, *op. cit.*

first historical scenario was subsequently replaced by another and perhaps even more overwhelming one, that of the United States, until well into the post-war era. Subsequently, however, the full recovery of Europe and Japan undermined this dominance, as is shown by the reduction of the United States share during the most recent phase from 53.8% in 1967 to 48% in 1975.³²

It is also interesting to take into account the distribution of investments in the periphery (see table 6). In the light of its share of world population (a little over 10%, compared with 31% for Asia (excluding Japan and Israel) and a little over 12% for Africa (excluding South Africa), the large share of Latin America is quite striking. At the same time, however, quite apart from the considerable decline during the period under examination, it is essential to take into account the countries in which these investments are made. Thus, Brazil and Mexico, which accounted for about a third of the total in 1967, came to account for half by 1976.

As in world trade, the sectoral structure of investments inclines towards the industrial field, in contrast with the past, when it was preferentially oriented towards mining and basic services. This is due to the influence both of the dynamics of the sector and the post-war tendencies which favoured the nationalization of the previously dominant areas. The variations are appreciable even if we only take the relatively brief period between 1967 and 1975, during which—as regards the capital accumulated by the United States—industry's share in Latin America rose from 33% to 49%, while the share of the petroleum and mining sectors dropped from 41% to 19%.³³ Partial

³²One of the most significant elements in this development is the growth of foreign investment in the United States. From an average of some 923 million dollars in 1967-1969, this rose to almost 4 billion dollars per year in 1973-1975, according to information from the United Nations Centre on Transnational Corporations, *TNCs in world development: a re-examination* (United Nations publication, Sales N.º: E.78.II.A.5), 20 March 1978. Regarding the decline of the United States dominance, see *inter alia* L. G. Franko, "Multinationals: the end of US dominance" in *Harvard Business Review*, Boston, Massachusetts, November-December 1978.

³³See CEPAL, *Economic Survey of Latin America, 1977*, *op. cit.* The other sector where there was rapid expansion in the recent past was that of finance, the share

data give grounds for assuming that this tendency is even more pronounced in the case of European capital.³⁴

h) *The weight of the transnational enterprises*

It is generally agreed that an overwhelming proportion of direct investment is made by the transnational enterprises: consequently, there is no need to repeat or enlarge on here what has already been observed from examination of the tendencies and structures of investments. We shall therefore concentrate on discussing some qualitative elements which may help to identify the present character of the phenomenon, compared with similar situations in the past,³⁵ the aim being to make a better appraisal of the role of these enterprises in the internationalization process since the end of the war.

The magnitude of this phenomenon must be underlined from the very start. According to a well-known United Nations study, around 1971 a relatively limited number of parent corporations (7,276) and their subsidiaries (27,300) generated about one-fifth of the total value added in the world gross product, not counting the centrally planned economies.³⁶

Comparable data regarding Latin America are not available, but perhaps the most important consideration is that involving a well documented fact: that the transnational corporations play the leading and sometimes exclusive role in some key sectors of production—precisely those of greatest dynamism and highest technological level—just as occurred in the past with the primary commodity exporting complex.

There is considerable documentation re-

of which rose from 14% to 20% of the total, for well-known reasons.

³⁴In the case of West Germany, for example, it would appear that 77% of the total investment are in the industrial sector, according to the United Nations study *Multinational corporations in world development* (Sales N.º: E.73.II.A.11), 1973.

³⁵With regard to the existence of such situations, Professor A. Lewis comments—rather ironically—that the recent discovery of their existence by political theorists leaves the historian a little perplexed (A. Lewis, *op. cit.*).

³⁶United Nations, *Multinational corporations...*, *op. cit.*

garding this matter which makes it unnecessary to go into it here in detail. It does seem useful, however, to go into a little more detail about some common features and also some notable differences in the particular situations of the Latin American countries. In order to do this, we have taken data regarding the industrial sector in Brazil, Colombia and Mexico.³⁷

In all these countries, from an early stage, foreign participation has been relatively highest (between 50 and 100%) in the chemical, basic metals and metal manufactures and machinery industries, with the proportions varying according to the specific lines in each sub sector. While the smaller degree of diversification and development of Colombian manufacturing may explain some of the contrasts noted, it is nonetheless true that these are very marked compared with the situations in Brazil and Mexico. As regards the metal manufactures and machinery group, for example, foreign control in various main items in the second country was complete until at least 1970 (the last year of the study quoted), but it was more varied and relatively smaller in Brazil. The motor industry may be taken as an illustration: even when the terminal plants are foreign owned, domestic motor-component firms account for about one-third of the total sales in this branch.³⁸

Obviously—and beyond any value judgement—the situation sketched above implies decisive influence on the growth rates and orientation of the production systems and on one of the crucial links of the external relations of the countries, precisely where this is most important.

It is difficult to say categorically whether this new form of internationalization implies more or less dependence on the exterior than that which characterized the primary commodity exporting growth. This is not the place to go

into the terms of the controversy over this matter, but what does seem to be beyond doubt is that the phenomenon involved is much more complex and comprehensive than the previous type of linkage.³⁹

i) *The 'motivations' of the transnational corporations*

What are the forces or motivations which impelled this process?

If we look back over the way the problem was expressed in the previous system of trade, it seems obvious that the central impulse came from the need to promote exports of primary commodities so as to ensure supplies of food and raw materials at relatively low prices (which, among other things reduced the cost of the labour force), while at the same time opening up other profitable horizons for the export of capital.

In the post-war phase, these incentives continued to be present, but other conditioning factors also entered into the matter. One of them arises from technological development and the tendencies towards the concentration of enterprises, which created the possibility and necessity of going beyond national boundaries.

With regard to the first and most decisive element, it seems unnecessary to stress the influence of progress made in the fields of com-

³⁷Regarding Brazil, see the data collected by the CEPAL/CTC Unit; regarding Colombia, see Michael Mortimore, CEPAL/CTC Unit, *Foreign participation in Colombian development: the role of TNCs*, 1979, and regarding Mexico, see C. Bazdresch Parada, "La política actual hacia la inversión extranjera directa", *Comercio Exterior*, Mexico City, November 1972.

³⁸Dercio G. Muñoz, "Capitais estrangeiros — a espera de pragmatismo", in *Revista de Anpec*, N.º 2, 1978.

³⁹Without this constituting an answer to this query, it seems useful to recall that in various recent CEPAL studies prominence has been given to the bigger capacity of the region to defend itself against the cycle of the central economies, which can be explained in the final analysis by the greater diversification of production of many of the economies of the region. When referring to this topic in his statement at the eighteenth session of CEPAL, the Executive Secretary of the Commission emphasized the following relevant aspects: the greater structural solidity of the economies of the region, due basically to the diversification of their production apparatus thanks to industrialization; the more diversified structure of exports and, in particular, the increase in exports of manufactures; the domestic potential for producing intermediate and capital goods, which could previously only be obtained through imports; the greater access to international financing (above all of a private nature), even at times of serious balance-of-payments disequilibrium in some countries, and the limited but significant changes in agriculture and particularly in a modernized sector with quite a high growth rate.

munications and transport, cybernetics, and business management, to which was added the "capacity and ... technical skill to 'fragmentize' the productive processes, even in relatively more complex activities, separating the segments of higher labour density from those which, although characterized by high capital density, can be carried out by unskilled or semi-skilled workers".⁴⁰

To these familiar reasons are added some others from other sources which complement them and accentuate problems connected with "capitalist accumulation", especially the unsatisfactory tendencies of profit rates in the centres (although this question only became of importance in the present decade), the pressure of the organized working class of the central countries themselves to share in the advances in productivity, and also the alternative and compensatory attraction of the low wages paid in the periphery.

Without denying the degree of validity of this second group of explanations, it seems clear that it comes from the same stock as the classical assumptions on this matter which we referred to earlier through a quotation from Professor Rosenstein-Rodan. As regards specifically the attraction exerted by the lower wages paid on the periphery, it is necessary to recall once again the well-proven fact that the bulk of the investments of the central countries has been concentrated in their own sphere—i.e., precisely where substantially higher wages predominate—and that even in the periphery itself they tend to recruit workers at wages which are usually higher than the average, although obviously they are far below those prevailing in the industrialized economies.⁴¹

A sounder approach, therefore, is to take into account the generic reasoning over the

possibilities of profit—visible or hidden profit on inter-enterprise transfers, payments for technology rights, and other well-known tricks—which acquires even greater significance if we consider the global or supranational strategies and the logic behind the oligopolistic competition between the big corporations. In other words, what interests them is not so much the profitability of each investment in particular as the global effect over the whole of their profits and the situation as regards competition with similar firms in the same field.

j) *The export of capital and the production cycle*

The elements of continuity and change in the presence of the transnational enterprises and their investments give rise to other queries which lead us to ask, as was done in a study already referred to: what is really *new*, if there is indeed anything new, in the recent trends?⁴²

In this sense, for some analysts the former phase was characterized by the export of capital from the central economies, while the phase which began after the Second World War was distinguished by the "internationalization of the production cycle"⁴³ or, to put it another way, by "the incorporation of the labour forces of many countries into an integrated and corporate world production structure"⁴⁴ in which the transnational enterprises play a decisive role.

Without denying the substantial change which took place between the two periods as regards the composition of the flows of capital, this did not prevent the fact that in the first stage, and even long before, as in the revealing case of the sugar plantations of the West Indies and Brazil, the other phenomenon mentioned above also took place. Particularly from the end of the nineteenth century onwards, there was a considerable increase in the centre-periphery links based on the trading of raw

⁴⁰P. Vuskovic, "América Latina ante nuevos términos de la división internacional del trabajo", in the review *Economía de América Latina*, CIDE, Mexico City, March 1979.

⁴¹From the point of view of Marxist categories, it could be said that the extraction of the relative surplus value (conditioned by the differential growth rates of productivity and wages) has been more attractive than the extraction of the absolute surplus value (created by the intensification of the efforts of workers and/or the compression of wages).

⁴²P. Vuskovic, *op. cit.*

⁴³C. Palloix, "Impérialisme et mode d'accumulation international du capital", *Revue Tiers Monde*, Paris, January-March 1974. Quoted by Pedro Vuskovic, *op. cit.*

⁴⁴S. Hymer, "The internationalization of capital", *Journal of Economic Issues*, Lincoln, Nebraska, March 1972.

materials and food for manufactures, thus internationalizing the global production cycle through the reciprocal significance of the flows of goods and capital involved. Obviously, the centre laid down the forms and rates of the links, but the mainly endogenous nature of their functioning was not in contradiction to the minor but still strategic role of the peripheral universe which was incorporated in this relationship and whose growth was subordinated to its rate and forms.

Moreover, this evolution, as a logical corollary of the direct or indirect promotion and control of production units by the guiding economies, also meant the forced or spontaneous mobilization and recruitment of an enormous reserve of labour. As is well known, two enormous international migration movements were set afoot: the approximately 50 million people who left Europe had as their counterpart a similar number of people who left the periphery for the tropical plantations, the mines or the construction projects. Added to the migrants were many more millions of people who were incorporated into the primary commodity export activities in their own lands. These amounts seem to be considerably greater than those now estimated with regard to the foreign operations of the transnational enterprises.⁴⁵

While the thesis thus unravelled may give rise to valid objections, it is nonetheless true that it does point to a clear and main fact: the greater complexity of the pattern of international relations (intra-centre and centre-periphery) established by the present agents in the articulation process. The socialization of economic activities (and not only of these activities) shows a great advance under the simultaneously paradoxical and contradictory aegis of the transnational corporations, which are *private* but in whose activities para-State and government bodies also play a part.

k) *The internalization of investments*

In seeking the novel features of the new situation it may be useful to recall the well known

⁴⁵S. Hymer, *op. cit.*, calculated that the foreign employees of the 500 biggest United States firms amount

image of Hans Singer who, referring to foreign investment in the primary commodity exporting field, maintained that it was umbilically rooted in the central country which gave rise to it, whereas its link with the peripheral country was a factor more of geographic than economic significance.⁴⁶

This picture underwent a profound change in the period after 1945. As foreign investment abandoned or was displaced from the field of commodity exports and began to be concentrated in industry and other activities, an "internalization" process took place to a degree which was more or less significant but in any case undoubtedly greater than in the past. The basic reason for this fact, as we know very well, is that the enterprises came to depend on the domestic market for their profitability and expansion, although they continued to be subordinated to the exterior through various channels (imports of inputs and capital, technological subjection, finance, etc.). On the other hand, depending on the host countries' bargaining power, this was accompanied by an expansion of the manoeuvring capacity of national policies and even the emergence of new forms of linkage with the transnational enterprises.⁴⁷

This "internalization" has many important consequences. One of them is the bigger irradiation of its effects over the societies which act as hosts to such enterprises, extending from the intensification and extension of the demonstration effect, with the consequent reproduction of the consumption patterns of the transmitting centres, to social and political impacts. It has been convincingly argued that all this has increased the co-optation capacity of the foreign presence, which covers the political, business and wage-earning classes, to

to between 13 and 14 million persons, while C. Vaitsos, *op. cit.*, estimates the number of persons employed by the transnational enterprises in industries in the developing countries at between 2.5 and 4 million.

⁴⁶Hans Singer, "The distribution of gains between investing and borrowing countries", in *American Economic Review, Papers and Proceedings*, Nashville, Tennessee, Vol. II, N.º 2, May 1950.

⁴⁷See in this respect CEPAL, *The economic and social development and external economic relations of Latin America* (E/CEPAL/1024), Vol. II, 1979. Prominent among these new forms are: co-production and specialization

say nothing of that part of the population which is incorporated (or hopes to be incorporated) in the market for consumer goods which are characteristic of the process. Paradoxically, in consequence, this "internalization" becomes a force which activates the tendencies towards internationalization already referred to.

Without prejudice to the foregoing, it is clear that these impulses run counter to other very powerful impulses in the opposite direction: i.e., towards the absolute or relative (but in any case conflictive) exclusion of a considerable part of the population of the periphery, with the proportions varying according to the particular situations of the countries, as many studies have convincingly demonstrated.⁴⁸

There is no room here to go into greater detail on this topic of such outstanding importance, but we cannot proceed without stopping to speak about a manifestation which is new in this matter and which is of particular significance for the central discussion.

Going to the root of the matter, we must recall the undoubted export-orientation of the former system of investment, which had as its counterpart—and made possible—the flow in the reverse direction represented by imports and service payments on foreign capital.

The new circumstances, and particularly the "internalization" mentioned, radically changed this circuit. With the international enterprises transformed into the main actors in the so-called second phase of substitution industrialization (which only really flourished it may be noted in passing, in the larger countries of Latin America), the trend towards imports replaced the former export trend.

Some selective data make it possible to illustrate this phenomenon: although they refer to changes which took place after 1950 they nevertheless bear witness to the change which

took place in the period within the general framework of inward-oriented development.

Thus, for example, if we compare the growth rates of the domestic product and of the imports of Latin America in the period 1950-1960 with those for 1965-1974 (see table 7), we see that in the second period there was a substantial rise in the growth rate of imports, while there was only a relatively modest increase in the product. The same evolution is repeated with greater force in the large countries in which the second stage of substitution was concentrated, since in these countries the growth rate of purchases abroad increased four-fold.

Table 7

GROWTH RATES OF THE LATIN AMERICAN DOMESTIC PRODUCTS AND IMPORTS

	Latin America as a whole		Large countries of Latin America	
	1950-1960	1965-1974	1950-1960	1965-1974
Domestic product	5.2	6.7	5.4	7.5
Imports	3.5	9.4	2.8	12.2
Exports	4.0	4.6	3.1	6.2

Source: CEPAL, *Long-term trends and prospects of the development of Latin America* (E/CEPAL/1076), document presented at the eighteenth session of CEPAL in La Paz, Bolivia, 1979.

Of course these disparities are not due exclusively to the phenomenon under consideration. They are also influenced by the expansion in world trade and the relative improvement of the terms of trade noted in the second period (1965-1974). At the same time, however, it should be noted that the average growth rates of the region's exports are similar in both periods, although they increase appreciably for the bigger countries, largely because of the performance of Brazil. External indebtedness consequently assumes outstanding importance in explaining the difference in the growth rates of the two flows.

agreements; sub-contracting; co-operation arrangements limited to aspects of technology and marketing, and agreements between foreign and domestic enterprises to carry out joint ventures.

⁴⁸Among these studies, those concerning income distribution and situations of extreme poverty and on the subject of basic needs are particularly pertinent. See, for example, CEPAL, *The economic and social development and external economic relations of Latin America*, 1979, *op. cit.*, vol. I.

With regard to the general phenomenon of integration-

exclusion, the studies by Osvaldo Sunkel, "Capitalismo transnacional y desintegración nacional" in *El Trimestre Económico*, Mexico City, N.º 150, and by S. Hymer, *op. cit.*, are worthy of mention.

This matter is made clearer if we look at fragmentary figures on the relation between exports and imports (and financial payments) for the case of Brazil, where the phenomena under consideration are to be seen more clearly and significantly affect the fields selected.

A study carried out by the Ministry of Planning of Brazil, which refers to the year 1974 and to 115 of the main transnational enterprises, revealed that the trade balance of the latter showed a negative balance of 2,161 million dollars,⁴⁹ which rises to 2,412 million dollars on the current account (i.e., taking into account payments for services) and which is reduced to 1,731 million dollars if we take into account investments and loans under the movement of capitals. From the point of view of the current account, this balance is equivalent to one-third of the total deficit recorded for 1974 (7,286 million dollars).⁵⁰

It hardly seems necessary to stress the great importance of the structural turnabout in the internal and external projections of the activities of these corporations. For a start, it raises a clear contradiction between the need for foreign exchange and the inward effects on the level and composition of domestic demand, which stimulates an increase in imports. Moreover, it obviously represents an obstacle to the progress of the internationalization of the economy (or, if you prefer, its "transnationalization"), insofar as it makes payments on foreign capital and the growth of imports more difficult. New net investments and an increase in other exports and credits can obviously make up for this dissociation to some extent, but their growth capabilities suggest that only a change in the structure of external relations of these enterprises—in the direction of increasing their export trends—could restore a manageable level of harmony to the opposing trends if, of course, these are going to continue playing such a decisive role as in the recent past.

Be that as it may, the change in question seems to imply that, in the second historical period under consideration, foreign enter-

prises or investments did not so much contribute to the progress and change of the *international* division of labour as help to deepen *national* divisions in this, i.e., within each country, as expressed in movements of labour and capital between and within the productive sectors. Of course, the outlook would be different if we forgot about the national framework and took as our reference a unified world system. From that point of view, this inward-directed change would have a sense equal to that of the international division of labour as it is normally understood.

1) *Oil and internationalization*

It would be a serious omission not to include some brief remarks about the incidence of the change in oil prices on the question under examination. Although the difficulties of the world economy, and particularly those of the central countries, had already begun to show themselves earlier,⁵¹ there can be no doubt that this price rise has been of decisive importance in the second half of the nineteen-seventies and it seems that it will be even more important in the future.

The truth is that this abrupt change gave rise to universal awareness of the realities of internationalization (and interdependence), however their nature and content might be viewed.

It may be, as has been suggested, that this was simply the detonator which dramatically brought to the surface the various disequilibria generated by the kind of development followed since the war, but at the same time few will deny that it has a personality of its own and effects which go far beyond the mere moment of the explosion.

For the particular purposes of the present study, what is worth stressing more than anything is the fact that this episode constitutes the first and unprecedented case in which the impulse towards internationalization—with all the consequences which it involves—has originated from a decision of a sector of the

⁴⁹The exports of the 115 enterprises totalled 837.5 million dollars as against 3,000 million dollars of imports.

⁵⁰See SUBIN, Ministerio de Planejamento, *Balanco de Pagamentos de 115 empresas multinacionais*, Brasilia,

1976, and CEPAL, *Economic Survey of Latin America, 1976*, *op. cit.*

⁵¹See in this connexion the analysis which appeared in CEPAL, *Economic Survey of Latin America, 1971*, *op. cit.*

periphery, thanks to its partial but strategic domination and handling of a product which is essential for modern society and especially for the most highly industrialized core of that society.

Many appraisals shared by analysts of diverse and opposed tendencies probably exaggerate the negative repercussions of this phenomenon and underestimate, in contrast, the capacity of adaptation of the centres. There seems to be general agreement, however, that the adjustment process (quite apart from having a striking influence on the growth rate, inflation and the terms of trade) may involve substantial changes in their style of development and, more specifically, in their resource assignment matrix. Recalling an oft-repeated metaphor, it could be said that the type of economy based on oil at less than 2 dollars a barrel can hardly be the same when the price in mid-1979 is already over 20 dollars.⁵² A more direct and equally transcendental result could be the massive reallocation of investments called for by energy programmes.

All this raises great queries which are far from being clarified, but their consideration goes beyond the scope of the present study, except as regards the repercussions of the general phenomenon on the periphery and the reactions of the industrialized economies.

A contradictory aspect immediately comes to our attention in this respect. There can be no doubt that the rise in oil prices represented a *global* strengthening of the bargaining position of the periphery *vis-à-vis* the centres, and this is the main reason for the political solidarity which is to be observed within the group of peripheral countries with regard to the OPEC. On the other hand, however, as is even clearer, it represented a differentiating and weakening factor in this group in view of the contrast which it created between the oil-exporting

countries and those dependent on the importation of petroleum.⁵³

Moreover, if we look at the situation of the latter countries, it is easy to see the multitude of negative consequences following upon the rise in fuel prices and transmitted from the central economies, the most readily visible of which are those deriving from "stagflation"; weakening of demand for the non-oil countries' exports, rises in the prices of their imports, and in addition the recrudescence of protectionism. In the more distant future, however, there loom other disquieting factors also, such as those which may result from the changes in the patterns of growth and investment already referred to.⁵⁴

Without weighing the various positive and negative elements against each other, there is a striking contrast between the effective impulse towards internationalization represented by the oil problem and the contrary influences —towards marginalization— which affect in particular the oil-importing peripheral economies.⁵⁵

Looking at the same problem from the angle of the central countries, we also note a contradictory situation. On the one hand, the energy crisis has so far stimulated joint decisions for tackling it, but few would deny that if it persists or gets worse this could well be the source of future conflicts.

(m) *A structural balance-sheet*

In order to give a broad picture of the changes which the internationalization process has

⁵³The first open manifestation of this split was seen at the UNCTAD Conference held in Manila in 1979.

⁵⁴By way of illustration, we may consider a tendency which was already taking shape before the oil crisis. Thus, between 1970 and 1973 over 80% of the total expenditure on the exploration of mineral resources was concentrated in only four countries: the United States, Canada, Australia and South Africa. See United Nations, *Development Forum*, Geneva, May 1978.

⁵⁵The so-called recycling of the oil surpluses and their contribution to international liquidity facilitated the flow of credits to the non-oil-exporting economies, and some measures have also been taken by the oil-producing countries to reduce the difficulties of the former. It is obvious, however, that these elements are far from representing adequate solutions to the problem. On the other hand, the allocation of a large part of the OPEC countries' resources to investments and purchases in the central economies has significantly aided the latter.

⁵²See J. W. Mullen, "World oil prices: prospects and implications for energy policy-makers in Latin America's oil-deficit countries", *Cuadernos de la CEPAL*, Santiago, Chile, 1978. In practice, the price of a barrel of oil before the 1973 increase, in constant 1975 dollars, was equivalent to less than half that prevailing at the beginning of the 1950s. It would be difficult to find a more eloquent illustration of the historic short-sightedness of the "market forces".

helped to bring about, two approaches have been selected. One stresses the changes in the pattern of trade of the main groupings in the world system, while the other stresses the structural shifts in the centre-periphery complex in its usual sense, i.e., without taking into account the socialist economies, although details are given regarding them.

With regard to the first approach, an attempt is made to establish to what degree there has been a change in the "classic" division between exporters of commodities and exporters of manufactures. See in this respect table 8, prepared for a recent CEPAL study, which clearly illustrates this matter.

As may be seen, there is a clear predominance of industrial exports in the export structures of the central economies and the European Socialist countries. In contrast, despite the significant changes which took place between the years in question, industrial exports represent only a small fraction of the

sales of the peripheral countries, although the Asian market economies constitute a significant exception to this because of the well-known weight of the group of countries which began their industrialization process with a view to the external market.

The situation is very different if we look at the composition of imports, since in all cases (with the exception of Japan)⁵⁶ imports of manufactures clearly predominate. This situation, of course, implies a marked distortion in the external trade structure of the periphery because of the scanty relative weight of their industrial exports in comparison with the very high value of their imports of such goods. In contrast, the symmetry in the imports and

⁵⁶This situation is largely explained by the shortage of natural resources. It is also influenced, however, by policies restricting the access of industrial products, which are frequently criticized, it may be noted in passing, by those who claim to be adversely affected by these policies.

Table 8

RELATIVE VALUE OF MANUFACTURES^a IN WORLD AND REGIONAL TRADE
IN GOODS (EXCLUDING FUELS), 1955 and 1975
(Percentages)

	Exports		Imports	
	1955	1975	1955	1975
<i>World</i>	49	70	49	70
North America (Canada and USA)	51	63	42	76
Western Europe	69	80	39	69
Eastern Europe and USSR	59	68	47	68
Japan	83	94	13	33
Other developed countries ^b	11	23	78	89
Latin America and the Caribbean	5	22	71	78
Africa (excluding South Africa)	6	12	72	79
Asia (excluding Japan and Asian socialist countries)	19	55	59	67
China and other Asian socialist countries ^c	17	39	78	73

Source: CEPAL, on the basis of data from UNCTAD, *Handbook of International Trade and Development Statistics*, 1976 (United Nations publications, Sales N.º: E/F.76.II.D.3) and 1977 (Sales N.º: E/F.78.II.D.1).

^aSITC sections 5, 6, 7 and 8, except for division 68 (non-ferrous metals). Figures based on FOB values.

^bAustralia, New Zealand and South Africa.

^cNorth Korea, Mongolia and the former Socialist Republic of Viet Nam.

exports of the central economies in this respect is very clear.⁵⁷

In view of the decisive role which exports of commodities will continue to play in the periphery and in Latin America, it is worth referring again here to an aspect which was already mentioned and which is of essential importance within the CEPAL conceptions of the centre-periphery system. We refer to the different demand dynamics for the goods which make up foreign trade and their influence on its structure. As we can see from table 3, between 1960 and 1974 the growth rate of industrial exports —at constant values— was two and a half times higher than the rate for primary commodities and foodstuffs, although it was not so much higher than that for fuels.

In order to try to draw up a balance from the other angle, we assembled and rearranged known data which enable the situations in 1950 and 1977 to be compared. These are given in table 9. As already noted, the socialist area has been excluded for the basic reason that it does not form part of this group, although it is linked to it by various channels and does form part of the world picture. Furthermore, this exclusion was due to more substantive reasons connected with the particular characteristics of these economies, which are based on collective, or, according to some, State ownership and planning, and with their internal or regional relations in the case of the USSR and the countries of Eastern Europe.⁵⁸ Reference will be made to their evolution later in this study.

Table 9
CENTRE AND PERIPHERY: DISTRIBUTION OF POPULATION, TOTAL PRODUCT AND PER CAPITA
PRODUCT IN 1950 AND 1977

	1950				1977			
	Population	Total product	Per capita product		Population	Total product	Per capita product	
	(%)	(%)	%	In 1970 US dollars	(%)	(%)	%	In 1970 US dollars
Centre and periphery ^a	100.0	100.0	100	627	100.0	100.0	100	1 448
“Modern” sector	34.3	86.0	250	1 565	26.6	82.2	309	3 543
North America (Canada and USA)	10.2	51.4	506	3 172	8.6	41.9	487	5 595
Western Europe ^b	17.4	29.1	168	1 052	12.3	28.9	235	2 696
Japan	5.1	3.0	59	367	4.0	8.9	221	2 532
Other developed countries ^c	1.6	2.5	138	866	1.7	2.5	148	1 698
“Intermediate” sector	10.0	5.8	57	360	12.1	7.7	63	725
Latin America and the Caribbean	10.0	5.8	57	360	12.1	7.7	63	725
“Primitive” sector	55.7	8.2	15	93	61.3	10.1	17	191
Africa (excluding South Africa)	12.6	2.3	19	117	14.1	2.6	19	214
Asia (excluding Israel and Japan)	43.1	5.9	14	86	47.2	7.5	16	183

Source: CEPAL, on the basis of data taken from official United Nations publications.

^aIncludes only market economies and therefore excludes the centrally planned economies of Europe, Asia and Cuba.

^bAll the EEC and EFTA countries, Greece, Malta and Spain.

^cAustralia, Israel, New Zealand and South Africa.

⁵⁷See in this respect G. Fichet and Norberto González, “The production structure and the dynamics of development”, in *CEPAL Review*, N.º 2, second half of 1976.

⁵⁸With regard to the second element, it should be stressed that this group of countries, despite some similarities with the centre-periphery scheme of the capitalist sphere (such as the fact that there is a “main centre” and other economies which are dependent on it in essential aspects), there are differences in other important aspects, such as the fact that the “classic” system of trade between

exporters of industrial goods and exporters of basic commodities does not apply. In practice, the main producer of primary commodities is the USSR, and some of the smaller countries have an economic structure which is more homogeneous and “developed” than the “main centre”. For a longer and more fully documented discussion of this subject, see A. Pinto and J. Kñakal, *América Latina y el cambio en la economía mundial*, Instituto de Estudios Peruanos, Lima, 1973.

As will be noted, the statistical picture reflects the approach applied in Latin America for characterizing the structural heterogeneity of the region.⁵⁹ This procedure is not arbitrary, since a similar picture is to be observed at the world level, where several outstanding universes coexist and are interrelated: that of the predominantly prosperous countries (in relative terms and with the exception of some special cases which are of little significance for the group as a whole); that of the predominantly backward or poor countries (except for the case of small rich élites which are also of little significance for the total), and that of the countries which are "intermediate" in the Latin American style, namely, countries which are neither one thing nor the other because they contain markedly heterogeneous productive strata which represent significant proportions of the population and/or the product.

The global system then, resembles the Latin American formation in its structure. A modern sector (the central economies) accounts for a high proportion of the product and a low proportion of the population; the "primitive" sector (Asia and Africa)⁶⁰ is marked by the opposite features, while the intermediate sector (Latin America) shows something of a balance between the two positions (see table 9).⁶¹

⁵⁹Paraphrasing one of Marshall Wolfe's definitions (CEPAL, *Economic Survey of Latin America*, 1973, p. 291) for this purpose, it could be said that this corresponds to a situation marked by the coexistence of economic groups characterized by profound differences of productivity and "modernity" but connected by complex links of trade, dominations and dependence within the world as a whole. With regard to its application to Latin American analysis see *inter alia* A. di Filippo and S. Jadue, "La heterogeneidad estructural: concepto y dimensiones", *El Trimestre Económico*, N.º 169, January-March 1976.

⁶⁰In order to facilitate the statement of this position, the oil-exporting countries have not been separated in these groupings. In any case, the comparisons are on the basis of the real product in money of constant value, so that they do not take into account the variations in fuel prices.

⁶¹Another factor already referred to is the *internal* structure of Latin America. At the end of the 1960s, this was approximately as follows: the modern sector generated 53% of the product and gave employment to 12% of the labour force (not, it should be noted, of the total population); the figures for the intermediate sector were 48% and 42%, respectively, while those for the "primitive" sector were 5% of the product and 34% of the labour force.

The first element to consider is the expansion of the system and of its parts, for which purpose we may look at the increase in the per capita product. What strikes us immediately from this point of view is the dynamic evolution of the whole and the different increases of each segment of this. Thus, while the global increase was 83%, that of the centre exceeded 126%, that corresponding to Latin America rose by 100%, and that of the most backward area by 105%.⁶²

Despite the significant contrasts, the intermediate and primitive sectors slightly improved their share in the total product at the expense of the modern sector. The variations in absolute terms, however, are extremely unequal (almost 2,000 dollars for the centre, almost 100 dollars for the most backward countries, and 365 dollars for Latin America).⁶³

It is easy to see that the change in the relative population of the areas affected this evolution. Thus, in keeping with well-known factors, the population growth rate of the industrialized economies went down considerably, whereas that of the other groups went up. Clearly, however, this is only a minor factor compared with the centripetal tendencies of the system as regards the absorption of technical progress.

Naturally, there are marked differences between countries. Argentina, for example, differs considerably from the general picture in that the "primitive" sector only accounts for 5% of the labour force, whereas the modern sector employs 21% of the total labour. See in this respect A. Pinto, "Styles of development in Latin America" in *CEPAL Review*, first half of 1976.

⁶²The rates of annual increase were 2.3% for the whole, 3.1% for the modern sector, 2.6% for the intermediate sector and 2.7% for the primitive sector. In order to have a point with which to compare these, they may be placed alongside the increases in the per capita product in the United States in a similar period of active expansion (1897-1900 to 1928-1930), which came to 1.7% per year (US Bureau of the Census, *Historical Statistics of the United States, Colonial times to 1957*, Washington, D.C., US Government Printing Office, 1960).

⁶³The figures make possible a realistic appraisal of the references to Latin America as an international "middle class". Apart from the fundamental factor of the distribution of this increase by social classes and countries—which meant very small advances for the 50% of the population with the lowest income—the distance between Latin America and the levels of the centre is very much greater than that between Latin America and the most backward area.

It would be tiresome to go into all the details of the various aspects arising from the information presented, but it seems useful to draw attention to the shifts within the modern sector, which confirm the rise in the relative position of Western Europe and, in particular, of Japan, whose per capita product increased seven-fold. This is obviously due largely to the year taken as a reference, when these areas were only beginning their period of post-war reconstruction. Moreover, even in 1977 the specific and proportional weight of the United States continues to be striking.

In order to complete this balance-sheet, we include the information given in table 10, which shows the changes regarding the European Socialist countries. Even taking into account the year taken as a base, which likewise reflects the upsets of the war, the variations in all the indicators are still substantial; in this respect, it is sufficient to note that this group's share in the world product rose from a little over 12% in the base year to 23% in 1977, while their per capita product rose at an annual rate of 6% over the period in question.⁶⁴

Table 10

RELATIVE WEIGHT OF THE EUROPEAN
SOCIALIST COUNTRIES IN THE
WORLD ECONOMY^a
(World = 100)

	1950	1977
Population	14.8	12.2
Total product	12.2	22.9
Per capita product	82.0	189.0

Source: CEPAL, on the basis of data taken from official United Nations publications.

^aEastern Europe (Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and Yugoslavia) and the USSR.

⁶⁴By way of reservation regarding this evolution, it has been argued that the amount of expenditure on defence constitutes a larger part of the product than in the central capitalist economies and that the official exchange rates over-estimate the real significance of the figures; even so, however, the changes are substantial.

Recapitulation

As we have seen, the rate of internationalization—except for the interval between the First World War and the end of the Second World War—undoubtedly accelerated during the second period, while the process also became more complex and all-embracing, especially at certain superstructural levels. From the more directly economic point of view, however, the process continued to be concentrated in the developed countries, as the driving forces and guides of the overall movement, whereas it took place in relatively few countries of the periphery and even then only in certain dynamic activities now closely linked to the consumption patterns of the central economies and the middle and upper groups. Thus, the phenomenon continued to be primarily horizontal (North-South), selective with respect to the periphery (as regards countries, activities, social groups, spatial location, etc.), and, as a result, a source of relative or absolute marginalization in all these dimensions as far as the great majority of the world population is concerned.

In short, the expectations regarding “the world-wide expansion of industrial capitalism”⁶⁵ did not materialize, not so much because of overdoses of the supposed medicine, but rather because these doses were insufficient or unsuitable for transforming the world economy in the image and likeness of the centres.

As we already noted at the beginning of this study, we have not gone into the question of “interdependence” which is so often intermingled with that of internationalization.

This matter does, of course, involve related realities, and it can thus be maintained in general terms that the development of the second process necessarily promotes the first situation, but the problem is considerably more complex than this in reality, due mainly to the ambiguity of the concept of interdependence.

In order to go straight to the heart of the matter, let us recall one of the elements which form the backbone of the centre-periphery

⁶⁵R. Prebisch, “Towards a theory of change”, an unpublished study to appear soon in *CEPAL Review*.

theory formulated by Raúl Prebisch. As we know, he started from the analysis of the economic cycle and the dominating role of the "main centre of the cycle", reflected in the dependence of the peripheral countries. This analysis was progressively enriched through the identification of the structural contrasts which condition the links between the two spheres beyond the periodical fluctuations. Within the framework of this conception, the various functions discharged by the periphery for the development of the central countries are not ignored, but it is established beyond all doubt that it is the centres which impart their special features and dynamics to the evolution of the system as a whole and that of the periphery in particular.⁶⁶ In other words, the overall interdependence has as its basis these two substantially different roles.

The course of the processes since the war has not changed the essence of this composition: indeed, the world projections of the "stagflation" suffered by the centres is suffi-

ciently eloquent proof of this. Although there can be no doubt that the "oil challenge", which we discussed earlier, is a prime exception of great present and potential significance, it is no less true that it has also brought out the very different capacities for response and adaptation of the industrialized and peripheral economies.

In reality, as Dr. Prebisch pointed out, this is a situation of interdependence between unequals.⁶⁷

The moral of the analysis which we have tried to make is clear. The dynamic continuation of the process of internationalization is not enough to significantly alter the classic system of centre-periphery relations. For this, there must also be a profound change in the ways in which the peripheral countries are fitted into the world economy, and this, in its turn, is intimately connected with the shift in their own productive structures. There lies the nub of the discussions and policies on the New International Economic Order.

⁶⁶In this connexion, see O. Rodríguez, "On the conception of the centre-periphery system", *CEPAL Review*, N.º 3, first half of 1977.

⁶⁷In his statement at the UNCTAD Conference in March 1979.

Commercial bank finance from the North and the economic development of the South: congruence and conflict

*Robert Devlin**

The executives of the big private banks feel very satisfied with their growing role in the financing of the less developed countries and furthermore consider that there is a general harmony of interests between borrowers and lenders: a sense of satisfaction which is shared by an appreciable number of economists and officials responsible for formulating policies both in the developed and the under-developed countries.

While he does recognize that there are some positive aspects in the situation, this optimistic attitude is not shared by the author, who maintains that such a general harmony of interests does not exist. The view is based on four main characteristics of private bank loans which are usually in conflict with the interests of development: (i) these loans involve a narrow and conservative interpretation of the criteria for judging the creditworthiness of the borrower countries which does not usually take into consideration efforts to achieve broader economic and social objectives; (ii) they involve strict repayment deadlines which can complicate the management of the debt and, when the case arises, make it impossible to secure debt relief; (iii) there is a tendency for private banks to have brief periods of high liquidity which generate a harmful boom in supply-led loans; and (iv) the private financial market is not competitive and is less than neutral at certain crucial stages in the credit cycle of a country.

After pointing out some serious deficiencies which are to be observed in the present situation, the author devotes the final section of his paper to exploring the alternatives and comes to the conclusion that the world economy should make a better use of the division of labour which has already been instituted in development financing by reviving the importance of loans from multilateral institutions and the private bond markets.

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I

Introduction*

The emergence of private commercial banks as principal lenders to less developed countries

The decade of the 1970s has been marked by the emergence of private commercial banks (herein used interchangeably with "bank" or "banks") as a major force in the transfer of resources to developing countries.¹ In the two preceding decades the external finance of these countries had generally been dominated by official multilateral and bilateral institutions, together with credit from suppliers and direct investments of foreign firms. Banks usually limited themselves to shorter-term finance often associated with trade. However, beginning in the early 1970s the interaction of many factors associated with the supply and demand for international finance generated conditions whereby banks rapidly expanded the volume of their lending to developing countries and there was a qualitative change in the relationship between bankers and the government authorities of less developed countries (LDCs).²

As an illustration of the nature of the change in the role of banks, it can be pointed out that in 1970 they accounted for roughly 19%

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¹Actually, this might be better termed the re-emergence of banks, since prior to the great financial collapse of 1929 these institutions had been significant lenders to Latin America and other developing regions. See Davis, pp. 6-21.

²By now there is some literature that covers—in varying degrees of comprehensiveness—the recent rise in bank lending to developing countries. See Beek, Devlin (first half of 1978), Gorostiaga, Kapur, Lissakers, Sargen, Wachtel, Watson, Weinert (1973 and 1978) and Wellons (1977).

of the total current account finance (including reserve accumulation) of the non-oil-exporting developing countries, most of which was of a short-term nature (maturities of less than one year). By 1974, however, banks generated 33% of this finance, with the bulk of the transactions falling into the medium and long-term category (maturities of 1-5 and greater than 5 years, respectively). With some increase in lending by official agencies in the post-oil-crisis period coupled with the moderation of current account deficits, the banks' participation has now slipped back somewhat to between 25% and 30% of the total. Again medium and long-term transactions predominate.³

As it has now become customary to point out, the structure of commercial bank lending is by no means symmetrical. In absolute terms, most of the lending has gone to the upper-income developing countries, especially those of Latin America. As may be seen in table 1, Latin America accounts for nearly two-thirds of the gross indebtedness of the non-oil-exporting developing countries to commercial banks, and almost all of the net indebtedness.

While the bulk of this debt is accounted for by Brazil and Mexico, other countries like Peru, Chile, Argentina and Colombia are also important clients of international banks.

The relative weight of banks in the structure of these countries' external finance has likewise become considerable. In 1966-1970 the average net contribution of banks to the current account finance of Latin America was only slightly greater than 12% of the total, but by 1974 banks accounted for more than two-thirds of net flows, and in 1976, despite new lending by international organizations, the bank contribution was still nearly 50%.⁴

Thus, the issue of bank lending to developing countries is largely associated with the upper-income group; lower-income LDCs have had only limited access to credit from banks and basically remain dependent on official concessionary finance.

The much higher profile for commercial banks in external finance has brought many tangible benefits for both lenders and borrowers: for example, for banks it has meant substantially increased earnings,⁵ and for the

Table 1

INDEBTEDNESS OF NON-OIL-EXPORTING DEVELOPING COUNTRIES TO PRIVATE
COMMERCIAL BANKS AT END OF DECEMBER 1977^a
(Billions of dollars)

	Latin America ^b	Middle East ^c	Africa	Asia ^d	Total
Gross	71.1	1.9	14.0	21.6	108.6
Net ^e	36.2	-7.1	3.0	-1.2	30.9

Source: Derived from data in the Bank for International Settlements, Basle: *Forty-Eighth Annual Report*, 12 June 1978, pp. 94-95.

^aIncludes short-term debt.

^bExcludes Caribbean area and Panama.

^cExcludes Israel. Residual estimate.

^dExcludes Hong Kong and Singapore.

^eDebt less deposits in the banks.

³The data just cited are from Watson, table 2, pp. 12-13.

⁴See Massad and Zahler, table 1, p. 4.

⁵See Watson, p. 37 and Lissakers, pp. 10-11.

countries a significant influx of resources for development.⁶ All is not well, however, as the dependence of developing country borrowers on commercial banks appears to have gone beyond prudent bounds. The focus of concern is not on the issue which has received most attention to date, i.e., the ability of borrowing countries to repay their debt and the ability of banks to absorb such risks. There is little question that in one way or another countries will continue to repay their obligations and accept the costs of doing so.⁷ Rather what is of concern here is the qualitative impact of bank lending on the process of development.

The problem arises from the fact that the willingness of banks to lend extensively to developing countries has reduced pressures on the industrialized nations to support official institutions and has contributed to the long-term stagnation of funding from this source.⁸ Thus, banks have not merely increased the finance available to developing countries but have also effectively displaced official institutions as the major agent for the transfer of resources to the South. Moreover, the displacement has not only been in terms of the volume of lending, but also in terms of

functions, as banks have gone beyond strictly commercial lending and entered into the usual domain of official institutions, i.e., balance-of-payments support, infrastructural project lending, general programme lending, etc.

This situation gives rise to a dilemma because commercial banks do not appear to be an appropriate primary agent of finance for developing countries. Private commercial banks, as their name implies, are not development institutions and their private commercial time and risk preferences make it difficult for them to provide finance in ways which satisfy the broad socioeconomic goals of development. When external finance becomes commercialized, as it is today, this asymmetry becomes dangerous, placing strains on the development process and perhaps even on the world banking system itself. Thus, analysis will suggest that officials in the North should be less complacent about the preponderant presence of banks in development finance and that the current situation requires a more courageous stance in the North that will foster appropriate funding of the current account balances of developing countries.

II

Lending to LDCs: The view of bankers

The increased presence and power of international commercial banks in development (and world) finance has not gone unnoticed by these institutions. Through eloquent spokesmen banks have entered directly into the debate about their role in developing country

finance, to which their attitude is usually very positive.⁹ Their arguments are generally focussed according to their specific audiences.

When addressing themselves to the public in their own home countries the banks stress the over-exaggerated nature of the concern about their lending to developing countries, assuring their audiences that the bulk of the lending has been to creditworthy, semi-industrialized economies; that most loans have been of a short to medium-term nature and/or have carried external guarantees of the industrial-

⁶See Devlin (first half of 1978), pp. 68-79.

⁷Economists and banks in Northern countries have gone to great lengths to prove empirically that developing countries are indeed capable of paying off their debts. See, for example, Smith, Brittain, van B. Cleveland and Brittain, and Solomon. Also see Lewis, chapter 9, for an interesting perspective on the debt problem.

⁸Between 1965 and 1975 there was no real growth of official lending. See OECD, p. 153.

⁹See, for instance, Watson, Friedman, and van B. Cleveland and Brittain.

ized countries; that debt growth in the developing countries in real terms has been reasonable and is serviceable; that the record for loan losses abroad has been considerably better than that at home; and that in any case the exposed assets represent a relatively small percentage of the total loan portfolio.

When addressing officials in developing countries, banks emphasize that their presence has greatly increased the resources available for development; that their involvement in the recycling of oil surpluses has helped to avoid a drastic adjustment process; that unlike official institutions; loans from banks are quickly arranged and disbursed, are not tied to the purchase of any suppliers' goods and are of a non-political nature, based on the merits of each case; and that due to a competitive environment, borrowers enjoy the freedom to "shop around" for credits, thereby obtaining the best available terms. Finally, while banks admit that they are basically limited to short and medium-term finance, they add that they are interested in long-term relationship with creditworthy customers, so that in effect, through the continuous rollover of shorter-term credits, these funds can "perform a function similar to long-term funds".¹⁰

The same spokesmen see the increased participation of banks in development finance as being "demand driven", with banks responding on the basis of "normal" credit criteria.¹¹ Furthermore, it is claimed that —because of the benefits noted previously— "developing countries want private banks to play a significant role in their development process...".¹² Indeed, the perceived harmony of interest has been expressed on one occasion in the following way:

"The benefits of becoming —and remaining— creditworthy in the private bank markets are now seen in most developing countries to be of major proportions. In these countries, it is seen that policies needed to maintain external creditworthiness with banks are also needed to meet national development objectives. It is the maintenance of the country's economic devel-

opment that is the prime purpose of policy measures, but if it also accomplishes availability of private credits, the process of development is greatly facilitated."¹³

But just what is creditworthiness? While it is seen to vary among banks, there are some common elements which are worth examining.

The concept of creditworthiness puts a premium on the availability of foreign exchange to service the debt; when an economy is run in such a way as to ensure availability this is termed "good management".¹⁴

Logically, then, when bankers are scrutinizing a country's creditworthiness, great emphasis is placed on external liquidity indicators such as the various components of the balance of payments, debt service, the level of foreign exchange reserves, inflation, domestic credit and exchange rate policy, etc.¹⁵ External debt management also is important, as is industrial growth and a country's treatment of foreign investment.¹⁶

As a tacit recognition of the still immature state of the art,¹⁷ most spokesmen stress the ongoing need to improve techniques of creditworthiness analysis. As part of this process, many banks, especially the larger ones, have been raiding the ranks of development institutions in an effort to recruit more personnel with relevant experience in country and development economic analysis.

As well as recognizing the need for more effective evaluation of creditworthiness, bankers have also become concerned once again about conditionality. In the 1950s and 1960s banks had been cautious, limited and conditional lenders to developing countries, with conditionality itself often linked to IMF standby agreements. But in the exceptionally competitive environment of the early 1970s, funds were lent to developing country governments with few, if any, reservations; project

¹⁰Friedman, p. 39.

¹¹See Friedman, p. 48 and Watson, p. 27.

¹²See Friedman, p. 61.

¹³*Ibid.*, p. 66.

¹⁴See Friedman, pp. 24-29; Watson, pp. 42 and 45.

¹⁵This is clear from a review of the criteria of banks. See Goodman, *Asian Finance*, BOA Methodology, Brackenridge, Anderson, and Wolfe. Also see Friedman, pp. 24-30 and Watson, p. 42.

¹⁶Friedman, pp. 47 and 53.

¹⁷The relatively primitive state of the art is clear from the Goodman survey and research presented by Blask.

loans often received little or no scrutiny, and large amounts of freely disposable funds were contracted by LDCs, all seemingly on the security of borrower government guarantees.^{18,19} However, the massive accumulation of bank debt by the developing countries in 1974-1975, coupled with the fragile external position of many of these countries, helped to bring back a trend towards conditional lending. Also important in the return to a more traditional conservative posture was the bankers' concern about the very viability of the international banking system itself.²⁰

At first—seeing that the volume of their loans dwarfed lending by official agencies—the banks felt confident enough about their leverage to entertain ideas of extending conditional balance-of-payments assistance on their own.²¹ The most celebrated test case was Peru, where in mid-1976 a large group of international banks agreed to support a stabilization programme in which an umbrella IMF standby credit was conspicuous by its absence.²²

¹⁸This is starkly clear from the author's study (available late 1979) of the evolution of commercial bank lending to the government of Peru over the period 1965-1976. In the latter half of the 1960s, loans were heavily secured and/or conditioned by policy limitations, especially with regard to contracting new debt. Furthermore, loans were often linked to an IMF standby credit. However, by the early 1970s credits were essentially devoid of any conditionality and many were of free disposal, i.e., with no *ex ante* purpose stated in the loan agreement. Maturities and interest spreads (margins on top of floating bank interest rate) were also considerably more favourable. As Weinert (1973, p. 37) has pointed out, there is no way this transformation in lending behaviour could have been justified by changes in the economic circumstances of Peru. For information on the scope and goals of the Peruvian project see Devlin (February 1978).

¹⁹The expansive (some have even said reckless) attitude of this rather unique period of world banking is well summarized by Cummings. Also see Wellons (1977), p. 24.

²⁰During the first half of the 1970s many banks overextended themselves both on loans and foreign exchange transactions. This was manifested in the failure of Bankhaus I.D. Herstatt on 26 June 1974, followed by Franklin National Bank later in the year. Both banks went bankrupt due to bad management of foreign exchange transactions.

²¹See, for instance, Morgan Guaranty Trust Company (May 1976), pp. 8-9.

²²See Belliveau. It should be pointed out that the Peruvian representatives asked the banks to participate in a stabilization programme because political considerations made the Government unwilling to undergo IMF scrutiny, (see, in Belliveau, the interview with the then Central Bank President Carlos Santistevan). In 1976 the banks also

The Peruvian loan agreement generated a heated political debate about the advisability of international banks entering directly into the economic policy of developing countries. In response to this criticism, the banks once again withdrew to more familiar terrain by making their loans to "problem" countries conditioned upon an IMF standby agreement. While bankers are quick to point out that the Fund's conditions are not necessarily sufficient for private banks' creditworthiness criteria,²³ in practice standby agreements have come to serve as the "green light" for bank lending, thus conveniently passing the political embarrassments generally associated with "adjustment" onto the international organization.

Since the Peru affair of 1976, a clear strategy has been evolving for dealing with countries that have debt service problems. As just mentioned, first and foremost is the condition that a country must call in the IMF for a standby agreement. Until such an agreement is arranged, the banks will refuse to grant any new credit, other than perhaps very brief rollovers (often with maturities of only several months). Moreover, the rollovers are often granted only at the last minute and just prior to payment deadlines in order both to place pressure on government authorities to submit to the IMF conditions and to prevent outright default, which banks in any case want to avoid because of the adverse effect this might have on their annual financial statements.²⁴

In situations where borrowing governments seek some form of debt relief, banks have a rather special view of their role in such operations. Official lenders—through the *ad hoc* Paris Club mechanism—will generally (although sometimes reluctantly) reschedule debts over a medium to long-term period. Banks, however, see things differently: a fundamental distinction is made between debts to official creditors and private creditors, and it is

lent to Argentina on the basis of an economic programme. Information about this less publicized case appears in Biem, p. 724.

²³See Friedman, p. 53.

²⁴See the February, March, May and June 1978 issues of *The Andean Report* for a good description of how the banks used short rollover credits as a way to pressure the Peruvian Government into an agreement with the IMF.

held that private debts must receive the highest priority and be serviced as originally scheduled.²⁵ Thus, debt relief from banks is to be avoided because "rescheduling of debt due to private banks will seriously damage a country's creditworthiness with private lenders, and will therefore impair future access to needed private capital".²⁶

This attitude is reflected in private banks' dealings with developing countries. When Zaire requested a 10-year rescheduling of the principal of private bank debts in 1976—an agreement which would have paralleled that granted by creditors of the Paris Club—the banks resisted. Instead they proposed to "restore Zaire's creditworthiness" by having the country clear up its accumulated arrears, after which, upon fulfilment of some other conditions, a new loan would be extended to refinance upcoming payments to the banks.²⁷

In another case, when Peru sought debt relief in 1978, banks again chose an independent route. The Paris Club creditors agreed to reschedule 90% of the 1979-1980 payments over a 7-year period; the banks, on the other hand, granted a rollover credit for 1979 payments of principal and then agreed to convert it to a 7-year balance-of-payments loan

in 1980. Principal payments due in 1980 are to be rolled over until 1981 and then converted into a 6-year loan.²⁸ Maintenance of an IMF standby accord was a condition for the rescheduling by the banks and the Paris Club.

Notwithstanding difficulties with "problem" countries like Jamaica, Nicaragua, Peru, Zaire, etc., banks are generally eager to continue their role in the external finance of developing countries, although they would not mind seeing greater funding from international institutions so as to move towards "at least a partial restoration of the traditional balance between official and private financial flows".²⁹ They feel that this in turn would help to enhance the creditworthiness of borrowers and allow banks to maintain the volume of loans to developing countries. In addition, some bankers have suggested that there should be a greater flow of country information to banks from international institutions such as the IMF,³⁰ as indicated earlier, however, most bankers have shied away from the idea of formal co-operation with such institutions on the grounds that banks must maintain their freedom to make independent judgements about the creditworthiness of a borrower.

III

Bank lending to LDCs: Some reservations

Bankers are certainly not alone in the sanguine view they take about their role in development finance: a majority of policy-makers and economists in the industrialized countries and a significant number in the developing world seem to share their enthusiasm about lending to LDCs. Such criticism as there was in 1975-1976—coming mostly from the Centre and concerning the risks of LDC default—has waned considerably in more recent years, permitting bankers to entertain strategies for

the global manipulation of resources for development.

There is little doubt that many of the virtues that bankers extol concerning their new role in the external finance of developing countries make good sense and few reasonable peo-

²⁵See Friedman, p. 69.

²⁶*Ibid.*

²⁷See Biem, p. 727 and Friedman, p. 71. As of May 1979, the new loan had still not been organized.

²⁸The refinancing operation covers 90% of the scheduled repayment. The interest rate on the first credit is 1.875% over the London Interbank Offer Rate; interest on the second credit is still under negotiation. Source: unpublished data secured from the editor of *The Andean Report*. Also see *Banco Central de Reserva del Perú*, pp. 48-49.

²⁹Watson, p. 8. Also see Brackenridge (p. 53), Anderson (p. 44) and Friedman (p. 81).

³⁰See Watson (p. 70) and Brackenridge (p. 53).

ple would want to disagree with them. For instance, banks clearly are efficient intermediaries of financial resources, there being no better testimony to this than the way in which they skillfully managed the recycling of the OPEC surplus. Banks have also proved to be highly flexible lenders whose interest rates are indeed reasonable in real terms. Nevertheless, the picture that they paint about an overwhelming harmony of interests is an excessively optimistic one which hides some serious deficiencies in the current nature of finance for developing countries.

Rather than noting a general harmony of interests, from another angle one can see a number of important asymmetries between what is good for the banks and what is good for development, using the latter term in its most far-reaching sense. The impact of these on the developing world was minimized in the 1950s and 1960s by the fact that banks were simply not in the front line of development finance. However, with their emergence as important lenders to the Third World—and principal lenders to the upper-income developing countries—the contradictions have become more apparent and, of course, more threatening to the process of development. The following paragraphs will bring out some of these problems.

A. Banks: a conservative influence on the development policy

There are several factors which seriously restrict the time and risk preferences of banks.

First, they are profit-oriented institutions which operate on the basis of private rates of return. They can internalize social rates of return on their lending only to the extent that these enhance the former, but, the gestation period for any such feedback process can be very long.

Second, a great deal of bankers' resources come from call or short-term time deposits. The short-term deposit base places a limit on the degree to which banks can prudently mismatch maturities, i.e., lend long on short funds. Thus, the nature of the resource base gives these institutions only a short and at most a medium-term time horizon with regard to lending.

Third, as bankers will readily admit, they have a special concern for minimizing risk and avoiding losses. This orientation is partly a matter of tradition, but it also reflects the reality that banks operate with other people's money and must ensure the safety of deposits if access to resources is to be maintained. This leads to a conservative view of life where "caution and prudence" are the watchwords for international lending operations.³¹ When viewing prospective loans to developing countries, bankers are naturally primarily interested in the prospects for repayment. It is not surprising, then, that liquidity indicators dominate creditworthiness criteria; good management is synonymous with insurance of liquidity to service debts, even if this means deflation of the local economy to free foreign exchange.

Thus bankers are by nature conservative businessmen. This was of little importance when their role in channelling resources to developing countries was secondary or tertiary, as their power to influence events was limited, but today they dominate finance and their opinions and actions can have a considerable impact on the development process.

When viewed from a global perspective, it becomes clear that bankers' individual time and risk preferences—which may be perfectly rational from the standpoint of an individual institution—may distort the allocation of world resources to developing countries. This has been well expressed by Albert Fishlow, who rightly points out that private credit decisions will not necessarily lead to an appropriate level and distribution of international purchasing power:

"Capital markets do not settle by themselves at a unique interest rate that determines the distributions of all the surplus to the most productive users. Instead private loans go to selected and favoured borrowers. Perversely, lack of need facilitates access to capital. It is easier to borrow for reserve acquisition than for imports, easier to borrow when there is surplus foreign exchange rather than a shortage."³²

³¹See Friedman, p. 79, and Greene, p. 199. For a brief period in the early 1970s there was a breakdown in this cautious tradition of international banking.

³²Fishlow, p. 137. Guido Carli, a former President of

Moreover, bankers can not only generate a less than satisfactory global distribution of resources but can also contribute to a skewed distribution at the level of an individual developing country. Of course, bankers are not responsible for the allocation of the resources of a country: this task is undertaken by Third World policy-makers. But they can nevertheless seriously affect the decisions of such policy-makers, in several ways.

First, in a situation where commercial banks dominate external finance there is only limited access to other types of funding. Thus, the cost and shorter maturities of bank finance become a relative constraint on the possibilities for the prudent utilization of external resources in the local economy.

Second, when bankers are the primary lenders to an LDC government, they have considerable leverage and can exert pressure—either directly or indirectly—on policy-making. The situation is analogous to the impact that a bank can have on a heavily indebted corporation, for through their financial leverage bankers can steer policy in the direction of conservative financial management at the expense of bolder objectives.³³ Bold objectives for a corporation are profit maximization and expansion; in the case of a developing country the corresponding aim is the rapid maximization of development potential in the context of the enhancement of the material (and spiritual) well-being of the general population.

It should be emphasized that development, by its very nature, must be a very bold process. Often policy-makers must be ambitious and assume large future risks in order to avoid stagnation, human suffering and social disruption today. This is particularly true in a democratic developing country where competing demands on limited resources can be more easily and effectively expressed, thereby forcing authorities to seek “consensual” rather than “optimal” economic programmes.³⁴ How-

ever, a country that is heavily reliant on commercial bank finance will undoubtedly feel pressure in favour of a conservative policy that places priority on a strong balance-of-payments performance and reserve accumulation, often at the sacrifice of broader-based development objectives. This is so because programmes oriented towards the satisfaction of basic needs and income distribution—which are undoubtedly key ingredients in real development—usually weigh heavily on the balance of payments and reserves.³⁵ Bankers are unlikely to be impressed by reduced unemployment, improvements in health care and social well being if these are gained at the expense of a country's external liquidity position. Thus, Third World financial managers who are preoccupied by their countries' creditworthiness may be tempted to place basic needs and balanced income distribution at the margin of public policy. It is not surprising that many of the banks' favourite developing countries are considered by many observers to be highly authoritarian régimes whose socioeconomic policy is not characterized by a primordial concern for social justice and economic and political participation.³⁶

It should also be noted that bank finance is exceptionally well placed to exert pressures because of the rather short maturity structure of the loans. The asymmetry between the long-term requirements of development and the short-term nature of bank finance means that bankers are continuously being asked to roll-over their credits, which is a terribly awkward way to accommodate the gestation period of development programmes. Not only are countries repeatedly exposed to the volatile nature of the terms offered on international financial markets, but they must also regularly pass under the cautious eye of their bankers, whose confidence must be maintained if roll-overs (and / or transfers) are to be achieved.

Italy's Central Bank, has expressed a similar concern. See Carli, pp. 20-21.

³³See Kotz, p. 142. Also see Hayes, pp. 117-118.

³⁴In an authoritarian régime, the demands of the masses may not find effective expression at all.

³⁵While in theory a reform / basic needs approach to development is not necessarily inconsistent with a healthy balance of payments, the state of the art of public policy making in developing countries is unfortunately such that in practice one has tended to prevail over the other.

³⁶Bankers do not necessarily prefer authoritarianism, it is just that this type of régime can more easily ensure

B. The primacy of repayment schedules

Another example of the less than complete harmony of interests between banks and developing countries is the rigid way in which bankers view repayment schedules.

Bankers tend to take a dim view of the strategy of renegotiating terms on old loans by contracting new refinance credits that take advantage of favourable changes in conditions on international capital markets. As expressed by one spokesman: "It goes without saying that refinancing is undertaken by most banks... only very reluctantly and only for customers with whom... (they) have excellent long-term relationships".³⁷

To discourage prepayment strategies—liquidating in full outstanding old loans with receipts from cheaper new loans—banks often provide for quite sizeable penalty fees for prepayment in their contracts. In the case of Peru, for example, over 60% of all medium-term commercial bank credit to the public sector during 1971-1976 carried a prepayment penalty, typically ranging between 2 1/2 and 1/2% of the amount prepaid, depending on the contractual year in which prepayment was effected.³⁸ Another tactic involves "moral suasion", by which it is made perfectly clear to the borrower that any attempt to refinance or prepay would create great displeasure at the bank.³⁹ This latter strategy can be quite effective the larger the bank involved and the greater the country's reliance on commercial credit. Finally, in some instances banks have even been known to include clauses in their contracts which actually forbid prepayment, although few sophisticated borrowers are likely to fall victims to this tactic.

Some countries are more successful than others in circumventing bankers' reluctance to refinance, with the incidence of success increasing the higher the liquidity in the market

and the more attractive the customer.⁴⁰ However, it is distressing that such obstacles prevail, because prepayment and refinance strategies are important tools to developing countries which permit them to assuage some of the impact of the surges in interest charges and contractions of maturities that can occur on private credit markets.

This is not to imply that prepayment or refinancing is a "right" of the borrower. Such strategies are undoubtedly troublesome to a bank: not only does it lose a profitable loan, but it also receives unwanted liquidity, unless it participates itself in the new credit. Moreover, a bank cannot call for *ex post* adjustment of terms on an old loan when market conditions shift in its favour. Nevertheless, what appears to be rational behaviour on the part of an individual bank, could be detrimental to all concerned from a broader perspective, because a developing country borrower that can trade in old loans for more favourable terms is a better overall credit risk and generally has increased capacity to assume new debt.

Bankers are even reluctant to depart from repayment schedules at times when countries are experiencing serious debt problems (as opposed to mere short-term liquidity problems). As shown earlier, banks reject any move to reschedule older loans, opting instead for new loans that are heavily conditioned, carry short maturities and are loaded down by high interest charges and heavy fees. For instance, the US\$ 400 million of refinance credits granted to a financially hard-pressed Peru in 1976 were for 5 years (2 years' grace) at a spread of 2.25% over the London Interbank Offer Rate (LIBOR) and with accumulated flat fees of more than 1.5%.⁴¹ And when Peru sought a general rescheduling of its debt in 1978, banks instead responded with an offer for new refinance credits. As already noted, the 7-year maturity on the new loans matches the terms of the Paris Club accord; however, it is preceded

conditions that provide favourable prospects for repayment of loans.

³⁷See Benney, p. 57.

³⁸The figures are from field research of the author. See the project cited in footnote 18.

³⁹Brazil, which in 1978 was greatly interested in ridding itself of some costly loans, has been a victim of this strategy. See Evans.

⁴⁰See *Euromoney*.

⁴¹A spread is a margin of points added to a floating base interest rate, usually the London Interbank Offer Rate. Flat Fees are a one-time percentage charge on the face value of a loan. The figures are from field research of the author. See the project cited in footnote 18.

by two years of "short lease" rollovers, which is a convenient way to maintain leverage over government policy during the difficult 1979-1980 period.

From the viewpoint of an individual bank it is no doubt sound business to extend new loans with high spreads and short maturities to countries with debt problems: a premium commensurate with perceived higher risks ensures profitability, shorter maturities minimize risk and increase leverage, and a new loan ensures that "problem" credits do not appear on annual financial statements. However, from the standpoint of development, a debt crisis merits long-term rescheduling — longer even than the Paris Club is accustomed to offering — on moderate terms so that payments can be really smoothed out instead of just being postponed one or two years, after which they can soar up again quickly to cause renewed damage.⁴² Also, rescheduling should be viewed as a convenient and desirable way of rescuing developing countries, instead of carrying the pejorative connotations it does today.

C. The intermittently very active supply curve

As mentioned earlier, bankers generally see their increased role in development finance as being "demand driven", i.e., a result of their having responded to the "demands" of developing countries. This is a clever ploy because bankers who advocate this position can elude responsibility for any ensuing problems that might develop with regard to repayment. One can imagine the response to a request for debt relief as being something along the lines of the following: "it was you who sought the credit and it is not our fault that you are now having difficulty in repaying it".

But bankers are often more deeply involved in the repayment problems of developing countries than they would lead many to believe. To some degree the current burden of payments of developing countries reflects the effect of the uniquely permissive lending environment of 1972-1974, followed by radical retrenchment in 1975-1976.

⁴²See Corea, pp. 72-73.

The period 1972-1974 was a time of high liquidity when banks were aggressively competing for new customers in the developing world. Actually, developing countries were caught up in the tail end of an accumulating wave of expansion of international banking that began in the late 1950s, led by large US banks, and was followed in the 1960s by the Europeans and in the 1970s by the US regional banks and the Japanese banks.⁴³ In the early 1970s the possibilities for continued rapid growth of lending to the industrialized countries were becoming exhausted, aggravated by a recession in the Centre in 1970-1971. In an environment of high liquidity and severe competitive pressure for growth of assets, lending consequently spilled over into the developing world, but even so the race for volume and marginal earnings greatly intensified, causing interest margins to decline drastically and maturities to reach unprecedented lengths. Developing countries, naturally enough, were eager to take advantage of these unusual conditions. When the OPEC oil surplus started flowing to the banks in late 1973, these institutions were even more eager to lend, while deficit-burdened countries were, of course, ready borrowers, especially as conditions were very favourable, with margins that had fallen below 1% and maturities that could easily range up to between 10 and 15 years.

Expansion of lending to LDCs continued at a very heated pace until mid-1974, when a series of important bank failures — derived from poor management of foreign exchange trading — marked an end to this euphoric period of lending. Nervous bankers quickly reappraised their international strategies and became much more selective lenders. Moreover, terms became very onerous, as margins for developing countries rose to 2% or more and maturities shrank to the point where a term of over 6 years was uncommon and loans for more than 10 years simply became impossible to obtain.⁴⁴ This severe contraction of terms on

⁴³For a good analysis of how and why US banks were in the vanguard of the "internationalization" of world banking, see Robinson, and also Lissakers.

⁴⁴See Devlin (first half 1978), pp. 77-79.

lending contributed to a bunching of maturities and consequent debt service problems in recent years. Bankers maintained their highly restrictive terms on LDCs up to 1978, when margins again began to decline and maturities to widen as the bankers' resolve for prudent pricing of loans was eroded by the pressures of continued liquidity.⁴⁵

The point to be made here is that the first half of the 1970s was a high-pressure period in the history of world banking and a time in which the supply side sometimes led events. The general environment of the times has been characterized by some financial men themselves as being one of "supercharged credit expansion"; a "glad-handed, name-your-price approach" to credit extension.⁴⁶ And the result was that some countries were literally deluged with offers of credit.⁴⁷

Even more important to this analysis is the fact that during the expansive phase bankers often paid little attention to the end-use of the credit, i.e., it made little difference whether credit was for military hardware, commercial aircraft or steel mills. Indeed, many banks did not have the infrastructure to evaluate credits and thus usually relied on the security of a sovereign government guarantee, itself evaluated to a large extent by "feel", other subjective criteria, and even rumours.⁴⁸ Standards continued to be lax during the early stages of the petrodollar recycling process, as banks tapped resources at relatively low interest costs and reloaned them at high interest rates and high placement fees.⁴⁹ In this type of environment only relatively sophisticated borrowers could resist bankers' overtures: for those which

couldn't, like Zaire, Peru and Jamaica, the consequences are well known.

Thus it seems that bankers are not completely innocent with regard to the current debt problems of developing countries: indeed, they appear to be at least partly to blame for present circumstances and it would seem justified to expect them to take a lenient attitude on any future rescue operations. It must also be remembered that commercial banks' profits on international operations were phenomenal in the early 1970s, due in no small part to the profitability of business with LDCs.⁵⁰ Indeed, in view of the fact that risk premiums have been charged on LDC loans, might there not even be room in some cases to absorb moderate losses on future rescue missions?

D. Commercial banks are not always competitive and neutral

International banking is often seen as being a highly competitive operation where institutions vigorously seek business on non-political terms. Carlos Díaz-Alejandro has gone even further and has described the Eurocurrency market as "standoffish and remote", so that it provides LDCs with greater opportunities for "national self-determination"⁵¹ than is available from the sometimes politically influenced lending of official agencies.

The above view appears to be true of one point in the credit cycle, but not so much of others.

It is clear that bankers are most attracted to "virgins";⁵² that is, countries not excessively burdened by external debt, not heavily represented in the portfolio of an individual bank, and perceived at the same time to be credit-worthy. At this initial stage in a country's credit cycle—a position many developing countries enjoyed in the early 1970s—banks may very well compete vigorously to attract potential business, thus giving the country excellent opportunities for bargaining on the amount, costs and terms of credit. Moreover, at this

⁴⁵A major factor behind the liberalization of borrowing conditions was the behaviour of the Japanese banks. Unnerved by the uncertain events of mid-1974, they participated in a mass withdrawal from the market place, helping to tighten the borrowing environment. However, by 1978 Japan's accumulating balance-of-payments surpluses fostered a re-emergence of these banks. They returned with a vengeance, and their aggressive approach to bidding for new business helped to drive interest rate margins down to levels that many bankers thought to be imprudent.

⁴⁶From an interview with bankers quoted in Hayes, p. 49.

⁴⁷See Devlin (first half 1978), pp. 77-78 and p. 94.

⁴⁸See Weinert (1973), p. 35. Also see Wellons (1977), p. 24.

⁴⁹See Hayes, p. 297.

⁵⁰See Lissakers, pp. 10-11.

⁵¹See Díaz-Alejandro, pp. 188-197.

⁵²This term came to my attention in a conversation with Arturo Porzecanski.

stage bankers are unlikely to be concerned about the use of a loan. The actual degree of competition experienced will depend on many other factors such as the liquidity of banks, the number of institutions operating in the international market, the general business psychology of the time and the quality of the creditworthiness of the borrower. In the case of the latter factor—in view of the way creditworthiness is viewed by banks—the willingness of these institutions to extend credit will probably be inversely related to the country's need for credit.

All things being equal, the more commercial credit paper that banks accumulated on a given country, the more their exposure becomes a consideration and the more their eagerness to compete for new business may wane. The bargaining position of the borrower is correspondingly eroded, and bankers even may become concerned about the use of credit.⁵³ The degree of erosion, for its part, depends on other variables. If many new banks are entering the international market, this may compensate for the waning interest of other institutions. If liquidity surges and no new attractive customers appear, bankers may have no choice but to compete for existing customers. If a country's creditworthiness somehow improves, bankers may then be willing to absorb more exposure, thereby favourably affecting the competitiveness equation.⁵⁴

If a country that has borrowed from banks loses its creditworthiness there is simply no competition at all: indeed, there may be a quasi-monopolistic situation that absolutely limits access to credit and encourages the market to intervene in the domestic affairs of the borrower. While no one could reasonably expect banks to compete for an uncreditworthy

country, this type of situation is an important consideration that is often overlooked by those who are awed by the competitive environment of Eurocurrency lending. It must be remembered that developing countries, facing as they do volatile external markets and/or sensitive domestic socio-political and economic conditions, are especially prone to the external balance-of-payments crises that can cause them to fall out of grace with banks.

When a country exhibits serious external problems and faltering liquidity, banks will cease to compete to lend it money and its access to new commercial credit is effectively cut off. It is now a "problem" country and bankers actually collude in search of ways to insure that they will not individually and collectively incur losses.

A good example again is Peru. In 1976, when Peru was seeking a large balance-of-payments loan (really a refinance credit) to bail out its external accounts, its major private creditors formed a Steering Committee to negotiate with the government. Such a committee is undoubtedly an efficient way to organize negotiations, for without central co-ordination chaos could prevail. Nevertheless, this does not alter the fact that public officials faced an uncompetitive environment, as the banks that composed the Steering Committee negotiated in a block and represented most of the more than 100 banks which had lent to the government. All banks demanded identical conditions on the refinance credits, and Peru could not realistically turn elsewhere for credit, since the block represented nearly all the major international lenders. The collusive nature of the negotiations is confirmed by the fact that the syndicates formed were not of an international character; regional groups of banks—Americans, Canadians, Europeans, Japanese—banded together to enforce individual credit agreements which all displayed the same lending terms and *verbatim* formulation of many of the covenants.⁵⁵ Later, in 1978, when Peru sought to reschedule its commercial debts, the banks formed another Steering Committee.

⁵³Until liquidity considerations led to the swamping of the market in mid-1978, Brazil may have faced a less competitive environment as a result of its paper having flooded secondary markets. In 1977-1978, when some developing countries were experiencing declining margins on their loans on account of increasing liquidity in banking circles, Brazil was still paying rates closer to those which had prevailed in the stiff environment of 1975-1976.

⁵⁴Regulatory authorities of some countries place country lending limits on banks. If banks run up against this barrier exposure may become an absolute constraint on competition for some banks.

⁵⁵Research of the author. See project cited in footnote 18.

Of course, in its negotiations with the banks Peru was not completely without a bargaining position, for it could always default: something the banks would surely want to avoid. Indeed, some have even seen the threat of default as a way in which banks can become "hostages" to the demands of developing countries.⁵⁶

A borrowing country's leverage should not be exaggerated, however. In the first place, a country cannot default selectively—thereby perhaps generating a more competitive environment—because of the cross-default clauses which figure in almost all commercial bank loan contracts.⁵⁷ Moreover, defaulting on all commercial banks is not a realistic option for a government wishing to remain a member of the Western capitalist community, since it would result in the cutting off of virtually all external commercial credit; it would cause the government to face the wrath of its national business sector, which would undoubtedly have its access to credit adversely affected; and it could very well bring retaliation from the home governments of the banks. Moreover, the risks associated with default are by no means symmetrical, for while banks could probably absorb a prolonged default by any *one* borrower, a country would find it much more difficult to absorb the effects of a blockade by its commercial creditors.⁵⁸ Only if several countries joined together in default would there be serious possibilities for taking banks hostage, but even then, unless one of the countries were a super borrower such as Brazil or Mexico, the outcome would more than likely be merely a stalemate.⁵⁹

When a country is at the bottom end of a credit cycle, banks can also be very interventionist. Peru is a case in point. In 1976, when the government sought its balance-of-payments loan the banks reluctantly agreed.

⁵⁶See Lissakers, p. 58.

⁵⁷Cross-default clauses are not what one would expect from a "standoffish and remote" market.

⁵⁸A study by the US Federal Reserve Bank shows that in the case of the six largest US banks only two borrowing countries each account for as much as 1.5% of total assets. Other borrowers account for much smaller proportions. See Watson, p. 50.

⁵⁹*Ibid.*

However, bankers insisted on a two-tranche credit with the second tranche being conditional upon a favourable evaluation of the progress of the government's stabilization programme.⁶⁰ Another more blatant form of interventionism was a condition that the government must settle a tax dispute with one foreign firm and compensate another which had been nationalized a year earlier: not surprisingly, both corporations had close links with the banks in the Steering Committee.⁶¹ Then in 1978, when Peru was negotiating with the Steering Committee to refinance its commercial debts, it was widely reported that one member of the Committee threatened to tie the success of the negotiations to satisfactory settlement of a dispute it had with the government over the handling of the foreign exchange earnings of a local foreign firm to which the bank had extended a large loan.⁶²

Banks have also sought to influence the policies of governments that are not in an open debt crisis. For instance, a widely-circulated and highly-respected publication of one of the largest international banks in 1976 made the following comments about Brazil's management of its economy:

"In this regard, Brazil's delay in internal adjustment has come as a disappointment. There, the growth in aggregate demand, the reemergence of the fiscal deficit, and the acceleration of inflation (estimated at 45%-50% for this year) have been inconsistent with the clear necessity for a current account adjustment".⁶³

It is no coincidence that the bank was a major creditor of Brazil, thus making the statement not unlike the medieval practice of admonishing debtors in the main public square. This rather heavy-handed commentary is not something one would expect from a "remote and neutral" market.

Another final consideration about the

⁶⁰See Belliveau.

⁶¹See Wellons (1976), p. 74.

⁶²See *Latin American Economic Report*, No. 20, May 26, 1978. It is only fair to add that the bank later denied ever having established such a link.

⁶³Morgan Guaranty Trust Company (October 1976), pp. 3-4.

competitiveness of international banking is that while there are indeed hundreds of institutions dealing in the Eurocurrency market—generating conditions that some think approximate a perfectly competitive environment—access to credit is actually controlled by a relatively small coterie of banks. This is because only very large banks have the resources and good will to be leaders or organizers of syndicates. It is these banks—which maybe number roughly 50 in all—that dominate the market. As leaders of credit operations it is they who evaluate a country's creditworthiness and pass on information to prospective lenders in the placement memorandum that accompanies each loan syndication. Thus, the opinion of these banks can influence the attitude of the whole market towards a borrower. Moreover, it would appear that there is a considerable degree of concentration among the leading banks themselves. For instance, table 2 shows that of the top 50 lead managers of syndicated credits in 1977 and 1978, the top 10 were responsible for 58% and 44%, respectively, of the total amount mobilized through such syndication.⁶⁴ Thus,

one could conclude that a handful of banks have a disproportionate amount of power in the distribution of international commercial bank credit, perhaps making for a less competitive environment than would at first sight seem to exist in view of the hundreds of banks dealing in the Eurocurrency market.

Table 2

PRIVATE COMMERCIAL BANKS: DISTRIBUTION OF SYNDICATES AMONG TOP 50 EUROCREDIT LEAD MANAGERS

(Percentage of credits mobilized)

	1977		1978	
	Value of credits	Number of credits	Value of credits	Number of credits
Top 5 banks	38	33	25	30
Top 10 banks	58	44	44	50
Top 50 banks	100	100	100	100

Source: Derived from data in *Euromoney*, February 1979.

IV Exploring the alternatives

We have just seen some of the drawbacks that might be associated with having commercial banks at the forefront of the allocation of resources to developing countries. Unfortunately, in economics it is easier to diagnose problems than to prescribe cures for them and this final section of the paper now has the difficult task of suggesting some alternatives.

A. *The international division of labour for development finance*

In general it appears that what is needed is some rethinking about the current division of

labour for development finance. There are many sources of finance, and each one is usually particularly good at performing certain tasks.

Let us look first at commercial banks. They are especially good at financing trade. They have a world-wide network of branches and correspondents with which to follow trade flows, and decisions on finance can be made quickly because of their familiarity with their clients. Assessment of risk does not have to be terribly sophisticated, because much of the finance is self-liquidating and the duration of agreements is on the short side: this, incident-

⁶⁴In 1975-1976 concentration among lead banks was much more severe. Greater dispersion in 1977-1978 was the result of a higher profile for Japanese and German

banks, coupled with the restrained activities of American banks.

tally, is in keeping with both the limited risk-assessing ability of most commercial banks and the short-term deposit base of these institutions.

Banks are also exceptionally suited for financing highly profitable commercial ventures with a quick return, say between 5 and 7 years. Another area which appears suitable is the financing of working capital, i.e., the pure need for short-term liquidity.

Just as banks are exceptionally suited for the above tasks, however, they are inferior at some others. One area where banks display severe limitations is in the provision of finance for ventures with a long payout. Social infrastructure requires maturities far beyond the reach of banks, and not surprisingly, these institutions are sometimes chary about lending in this area. But many commercial ventures, too, may be out of the reach of banks, particularly those that are very capital intensive. Some might argue that there are few commercial projects that cannot provide returns within the 10-12 year maturities being offered by banks in 1978-1979. However, this assumes that maturities will never shrink again as they did in 1974-1975. It also assumes that ventures will meet their cash flow projections: something that is far from certain for infant industries in developing countries.

Moreover, banks cannot adequately fill liquidity needs when lack of liquidity is due to structural imbalances (real or financial) in the economy. Thus, if balance of payments or fiscal difficulties stem from something other than a temporary exogenous factor (e.g., a fall in the price of a major export commodity), banks are an inferior source of finance. In these circumstances—which are very common in developing countries—if banks extend “no questions asked” finance they become a permissive influence that masks the need for changes in structure and policy. Peru up to 1975 fell victim to an overly co-operative banking community. On the other hand, if banks attempt to induce changes in policy and structure they become interventionist. Because of their private commercial character, when they negotiate with sovereign governments they are open to charges of conflicts of interest and political subversion. To this must be added the fact that

the maturities that they can offer under the risk associated with restructuring may simply be inadequate for the circumstances. Consequently, when banks embark upon the financing of structural balance-of-payments problems they enter into a “no win” situation.

Accordingly, when the commercial banks initiated the recycling of the OPEC surplus few complained: banks recycled quickly, and most thought the crisis to be temporary, as a full recovery in the Centre was seen to be imminent and “market forces” would quickly put an end to the OPEC cartel. But, of course, so far this has not been the case, as balance-of-payments disequilibria have gained a more permanent character and most developing countries (and developed countries as well) appear to be interested in restructuring (over and above the normal restructuring associated with development) to accommodate themselves to a new era of higher energy costs and slower growth in the Centre. It is most distressing, however, to find that no adequate finance is available to developing countries for such restructuring: Brazil, for example, has had no choice but to fund its massive import substitution/restructuring programme on the limited and uncertain maturities of commercial banks.

Which institutions, then, would appear to be the experts in those areas where commercial banks face constraints? The author believes that the answer is the multilateral agencies and private bond markets.

Multilateral agencies—i.e., the World Bank, the Inter-American Development Bank, etc.—display great virtues with regard to some of the special needs of developing countries.

First, they possess highly trained professional staff who have a wealth of experience with the problems confronting developing countries. They can help in project preparation, troubleshoot where problems arise, and assist in follow-up evaluation. Moreover, they are interested in the success of the project and not just its finance and repayment, and furthermore they are capable of collaborating with authorities in the formulation of global policy for development without raising suspicions of conflicts of interest.

Second, and even more important, multilateral agencies are not commercial institutions and therefore can accept time and risk situations compatible with the far-reaching needs of development. Thus, multilateral agencies can and do lend to countries which display liquidity and political conditions that would simply unnerve a private banker. Moreover, their special character enables these agencies to permit repayment periods of up to 25 years or more, which is the type of finance that can smoothly promote the broad-based socioeconomic change integral to the process of development. Implicit in this capability is a willingness to finance projects of a basic needs character, and to encourage this type of development as well.

Third, unlike commercial banks where developing countries have no influence over policy, developing countries are voting members of multilateral agencies and have an opportunity to influence events in them. Nor is this virtue negated by the fact that LDCs are a minority voting block. As long as industrialized countries contribute the bulk of the funds, the credibility of multilateral agencies is best maintained if those countries have technical control over decision-making. If the LDCs act together, however, they can form an effective lobby for pressuring the industrialized countries to adopt policies favourable to their needs. LDCs can also improve their voice in policy matters by ensuring that they gain maximum representation on the staffs of multilateral agencies by sponsoring candidates for their technical competence and not for their domestic political connexions.⁶⁵

The above is not to suggest that multilateral institutions are perfect. The quality of their finance undoubtedly can be improved. For instance, there could be greater articulation between the IMF and World Bank so that standby programmes can, where appropriate, take on a long-term character and facilitate real structural — as opposed to just temporary monetary/financial — change. In line with much longer standby agreements, conditionality could be moderated to take into greater account

domestic political and social objectives and the need to avoid reductions of employment and per capita income in developing countries.⁶⁶ There is also a great need for significant programme lending by development institutions like the World Bank and IDB.⁶⁷ Many more examples of desirable changes could be given. Fortunately, unlike commercial banks, whose actions are constrained by the commercial interests of their stockholders and the rules of prudent banking, the policy frontiers of multilateral institutions are only limited by the courage and imagination of policy-makers in the industrialized countries.

As for private bond markets, they afford developing countries the opportunity to acquire funds for considerably longer terms than those usually offered by commercial banks. Also, their interest rates are generally fixed through the life of the maturities, providing LDCs with a predictable cost that can easily be incorporated into planning strategies. Another consideration is that bond markets are really standoffish and remote in the sense that borrower and lender never meet each other. Their major drawback is that investors tend to be rather unpredictable and therefore access may be somewhat unreliable.

There are two other important specialists in the international financial arena that are worthy of mention: commercial suppliers and bilateral government agencies. Both are usually associated with “vested interest” finance, i.e., finance which is itself only a means to a broader objective. The conditions of finance can prove to be very attractive, and although this may be offset by their being tied to particular goods or political positions, the interests of the borrower may nevertheless sometimes overlap with those of the lender, making for a mutually beneficial transaction. It is in these circumstances that suppliers and government can play an important role in the division of labour for development finance.

⁶⁶ For an excellent comprehensive critique of IMF standby programmes and suggestions for reform see United Nations, 1979.

⁶⁷ Non-project lending is essential if the World Bank and IDB are to take on a larger role in stabilization efforts that involve structural changes in an economy.

⁶⁵ This point has been raised before by Jeker, p. 225.

B. *Can this division of labour
be made to work?*

We have just outlined what may be considered a reasonable division of labour for development finance based on an existing infrastructure. Unfortunately, some actors in the global division of labour have had their activities restricted for one reason or another, creating a vacuum that has been filled in an *ad hoc* fashion by commercial banks, which in contrast have been able to expand almost without limits because of surging world liquidity and an unregulated Eurocurrency market. The problem, as we have seen, is that banks cannot properly assume their new role and it is necessary to find some way of rectifying this imbalance in the sources of finance.

Multilateral agencies have suffered from a lack of an automatic funding mechanism, wariness on the part of donors, and a general ideological shift away from multilateralism. In an age of fiscal deficits and tax revolts new contributions to development institutions have become unfashionable: indeed, perhaps one reason for the industrialized countries' complacency about the role of their banks in development finance is that it is simply less of a fiscal burden to have private commercial banks channelling resources to developing countries.⁶⁸

What is needed to counter this trend is a campaign to alert public opinion to the need for massive resource transfers on more reasonable terms to developing countries. This can be viewed as simply enlightened self-interest, for while commercial bank financing appears on the surface to be working smoothly, the inferior quality of the finance, coupled with other well-known maladies of the international economy, may be generating underlying social and economic tensions that could make the world of the 1980s a much less pleasant place to live in. Moreover, transfers to the South usually come back to the North in the form of purchases of goods for import, thus creating new business and jobs for the industrialized nations.

⁶⁸To the extent that commercial bank profits are taxed by the industrialized countries, the shift to bank finance of development could even be profitable for the governments of the industrialized countries.

There has been no lack of proposals for transfers. The annex to this paper reproduces an excellent summary of current proposals prepared by the Overseas Development Council. They are all characterized by sophisticated mechanisms to provide long-term finance to developing countries. Multilateral agencies are seen in the role of managers of funds. The mayor obstacle to the proposed programmes seems to be the generation of resources. It may therefore be worthwhile to briefly review some tentative ideas on how resources could be generated, concentrating on the need for automatic funding.

One possibility is to assign to the World Bank and IMF a more direct role in transferring savings from North to South. Many have complained about the lack of symmetry in pressures on countries to adjust their balance of payments;⁶⁹ deficit countries must submit to vigorous IMF programmes, while surplus countries suffer at worst moral suasion. Why not arrange for surplus countries in the industrialized world and OPEC to place 50% of their annual surplus (after adjustment for coverage of "normal" capital outflows) on deposit with the aforementioned institution? Something near a commercial interest rate could be paid, as in the Fund's Supplementary Oil Facility. Alternatively, if desired, a tax could be placed on the surplus by offering much less than a commercial rate. Withdrawals would not be permitted until a surplus country's "non-deposited" surplus fell to some critical level—say the equivalent of 3 months' imports—and even then withdrawals would still be in line with the trends in the country's balance of payments. Since surpluses tend to accumulate in the industrialized countries and OPEC, the fund would be continuously renewed. The special character of developing institutions would allow them to mismatch maturities and transfer these resources to the South on appropriate terms. Admittedly, unless the surplus is heavily taxed this proposal would place only mild additional pressure on surplus countries, since access to surplus receipts is maintained: its chief value, therefore, is that it would allow

⁶⁹For a critique of the lack of symmetry in adjustment pressure, see United Nations, pp. III.8-III.13.

more resources to be channelled through development agencies.

Ways also need to be explored on how to achieve permanent increases in the capital base of international agencies which will facilitate their ability to capture funds on international capital markets. One measure might be to channel SDR allocations to subscriptions of capital in these institutions. Inviting the centrally planned economies to participate in the development effort by joining development institutions would also increase capital and have the added benefit of providing greater ideological plurality in these agencies. The industrialized countries and OPEC, for their part, could consider directly guaranteeing bond issues of multilateral agencies, thereby facilitating greater leverage over the existing capital base.

Less certain are the possibilities of raising capital contributions via taxes in developed countries. The constraints are more political than real, however, as ample room exists for new revenue. Emergency economic development taxes on luxury consumption, i.e., cigarettes, liquor, oversized cars, second homes, luxury restaurants, etc., could painlessly produce considerable annual contributions. The problem in this approach is that small interest groups may be able to resist the introduction of what otherwise are rational measures.

Another scheme that enjoys some support is co-financing between multilateral banks and Third World finance institutions. In this way banks would come under the umbrella of multilateralism and effectively expand the resources being channelled through development agencies. Banks participating in co-financing would presumably offer slightly lower interest rates and somewhat longer maturities. The value of the scheme is that it requires no real change in the existing financial system. The disadvantage is that it could be construed as a substitute for increasing the capital base of multilateral agencies. It could also further erode the degree of plurality in sources of finance and "cartelize" development finance.

In exploring the resource problem, it might also be useful to question the current practice of charging all developing countries the same rate of interest on *regular* (i.e., non-

IDA) loans from development institutions. In order to stretch development funds to the greatest degree possible, one might consider varying interest rates to suit the level of development of the borrower country. Lower-income countries could continue to receive absolutely concessionary rates, whereas upper-income countries, which are not so much interested in aid as in rather longer maturities, could be charged commercial rates of interest. Furthermore, rates to upper-income countries could continue to be fixed in principle, but with provision for the periodic adjustment of old loans should they become uncommercial over the medium term. Even with commercial rates there could be some cost savings on loans: with greater access to multilateral finance there might be less need to maintain large amounts of borrowed international reserves, many of the fees and ancillary charges of loan syndication would be eliminated, and prepayment could be effected without penalty.

Turning to international bond markets, these have not been a dynamic source of funds for developing countries since the great financial collapse of the 1930s. The industrialized countries have placed great administrative barriers in the way of LDC bond issues, creating a two-tier system whereby rich countries tap Eurobonds and poor countries Eurocredits. This is regrettable, because bond markets can be a very suitable way to finance development, and while they cannot take the place of dynamic multilateral development finance, they certainly can take some pressure off development and institutions. Undoubtedly, rich countries should reconsider their policies in this area.

As for bilateral finance, this has no doubt slipped because of aid weariness and it might be difficult to stimulate this source again, although it might be possible to secure reconsideration of schemes which are actually designed to restrict funding, such as the Gentlemen's Agreement among OECD export credit agencies, at least as far as finance for LDCs is concerned.

After reviewing proposals for North-South transfers of resources and some possibilities for financing them, one cannot help but think that current problems are of a political rather than an economic nature. There are a multitude

of technical ways to enhance the functioning of the international division of labour in the field of development finance. The problem is to develop the political will to implement them. Many may feel that any massive reordering at this time runs counter to political realities and it is therefore best to accept the present system, with perhaps some minor modifications. However, one should remember that reality can be modified to some degree, and with due

willpower and courage it would be possible to improve upon the present transfer mechanism, which has evolved in an *ad hoc* fashion and is less than adequate for the promotion of broad-based socioeconomic development. Hard-core realists who may be skeptical of change should perhaps ponder on the fact that those who are excessively realistic can be the most unrealistic of all.

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Annex

A COMPARISON OF SOME CURRENT PROPOSALS FOR MASSIVE RESOURCE

	Senator Javits' Proposal: Growth Development Fund.	Mexican Proposal: Long-term Recycling Facility (IMF/IBRD Development Committee).	Venezuelan Proposal: Joint OPEC/OECD Global Stimulation Plan (Ronald Müller).
Amount/ Size	US\$ 25 billion (US\$ 5 billion per year)	US\$ 15 billion	Not specified, but in range of US\$ 20-40 billion.
Timeframe	5-year initial period	Long term	5-10 years, commencing before 1980.
Objective	To establish a capital fund for productive investments in the LDCs that will promote rational agricultural and industrial development and trade leading to the expansion of markets and the stimulation of the world economy.	To increase the supply of long-term funds to the LDCs for financing capital goods purchases.	To mobilize unused savings in OPEC and the OECD into a capital pool and to invest these funds in the non-oil-LDCs in such a way as to increase their purchases of exports from the industrial nations; to head-off medium-term international supply shortages; and to implement structural adjustment plans in the OECD.
Problem Focus	<ol style="list-style-type: none"> 1. Economic growth is stagnating in many countries, necessitating a rise in capital stock to increase productivity. 2. OPEC recycling is inadequate because it fails to generate macro-economic policies in oil-importing nations needed to restore purchasing power. 3. The foreign exchange drain resulting from oil imports is constraining the purchasing power of oil-importing LDCs. 	<ol style="list-style-type: none"> 1. Low long-term growth rates in DCs are slowing world trade, fostering protectionism, and leading to sluggish demand for capital goods of DCs. 2. LDCs have potential demand for capital goods not made effective for lack of financing. 3. The high level of financing by the international banking system cannot be sustained in the future. 4. There are short- and medium-term recycling facilities for balance-of-payments adjustments but none for the longer term. 	<ol style="list-style-type: none"> 1. With simultaneous unemployment and inflation together with declining profitability and productivity in DC industries, OECD capital formation is lagging and there is a trend towards long-term stagnation. 2. OPEC recycling could be longer-term. 3. There are serious policy lags in DCs and LDCs regarding macro-economic management and international economic coordination. 4. The Third World could be a new source of sustained demand—a new growth frontier—for the world economy. 5. There is a need to alleviate the poverty and debt problems of the LDCs.
Sources of Funds	Industrial and OPEC countries.	Public and private investors of countries with strong balance-of-payments and financial positions (including institutional investors).	<ol style="list-style-type: none"> 1. Underutilized savings in OPEC and OECD: 20-25% from OPEC's accumulated petrodollar earnings, and the rest from private investors. 2. Contributions from OECD nations to World Bank (additional or reallocation).
Administra- tion of Funds	Fund could be designed and implemented by the World Bank, regional development banks, and the IMF, or a new institution could be created.	New lending operation at the World Bank.	Special window at World Bank and IFC, and/or regional institutions.

TRANSFERS AND GLOBAL STIMULATION

	OECD Investment Plan	Trilateral Food Task Force Programme Doubling Rice Production in S/SE Asia (Hayami/Takase).	Roger Hansen's Proposal: A Global Basic Human Needs Régime
Amount Size	US\$ 5-10 billion in additional capital flows.	Total capital cost of US\$ 52.6 billion (1975 constant US\$) but only US\$ 1.8 billion annually in additional flows.	US\$ 12 billion (constant US\$) per annum which would cover all investment costs and half of the annual maintenance costs.
Timeframe	3-5 years of increased transfers, within a medium-term timeframe of up to 8 years.	15 year period; 1978-1993.	20 year period.
Objective	To undertake a major increase in investment flows to LDCs as a general stimulus to world economic activity directed at structural change over the medium term in key supply sectors.	To double rice production in Asia through irrigation improvements.	To establish a global basic human needs régime with a view to eliminating absolute poverty in two decades.
Problem Focus	<ol style="list-style-type: none"> 1. The recovery of the OECD economies from the recession is not yet self-sustaining and a stimulus is needed for economic activity. 2. There is currently substantial underutilization of resources in the OECD and a widespread feeling of uncertainty deters investment. 3. Current patterns of investment in key supply sectors are inadequate for the long-term needs of both DCs and LDCs. 	<ol style="list-style-type: none"> 1. Focusing entirely on the world food problem, Asia is chosen because two-thirds of the world's malnourished live there, and Asia has great potential for a quantitative increase in food production. 2. Improvement and expansion of irrigation, which requires capital, is critical to increasing food production in Asia. 	<ol style="list-style-type: none"> 1. The poverty problem is not insurmountable, but without a focused attack its dimensions are likely to grow along with population problems. 2. There is a need for a less interventionist channel for ODA - a highly qualified, specialized basic needs agency. 3. Incremental increases in ODA through existing channels are unlikely to have a major impact on poverty because ODA is currently determined largely by other objectives, concerns and political pressures.
Sources of Funds	Equity and debt from private and commercial sources in OPEC and OECD (not ODA because politically unrealistic).	<ol style="list-style-type: none"> 1. Multilateral or bilateral foreign agricultural aid, including OPEC assistance. 2. Asian developing countries' irrigation budgets. 3. US\$ 1.8 billion per year in additional capital contributions (presumably ODA) by DC and OPEC countries. 	<ol style="list-style-type: none"> 1. ODA from DAC countries pledged on a multiyear basis. OECD countries should put most of their ODA into basic needs programmes and raise their ODA levels to 0.45-0.50% of GNP by the early 1980s. 2. ODA from OPEC as well as other better-off LDCs.
Administration of Funds	Co-financing arrangements through the World Bank family.	Donor countries and agencies would direct funds to agricultural sector in Asian LDCs.	Preferably through North-South action, a neutral international agency would be created, to receive financial contributions, make allocative decisions and monitor performance. The UN system, including the World Bank and regional development banks, could also be involved.

A COMPARISON OF SOME CURRENT PROPOSALS FOR MASSIVE RESOURCE

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Main Characteristics	<ol style="list-style-type: none"> 1. Funds would be divided into two parts: half (US\$ 2.5 billion) would go to the poorest LDCs, and the other half on a loan basis to the more creditworthy advanced developing countries. 2. Terms could be negotiated to meet the concerns of donor countries regarding the sustained value of their funds invested in the Fund and the need for liquid assets in the event of economic emergencies. 3. The fund could give priority to energy investments. 	<ol style="list-style-type: none"> 1. Total capital subscription of the facility could be divided into three borrowing operations of US\$ 5 billion each. 2. Debt instruments denominated in SDRs would be issued to lenders for a 15-year term with a market rate of interest. 3. Secondary market would be developed to give liquidity to these instruments. 4. Governments not contributing direct loans could guarantee loans granted by the facility. 5. Purchases of DC capital goods financed by the facility would be limited to countries granting loans or guarantees. 6. Capital goods would be purchased in connexion with specific projects approved in LDCs by the World Bank. Loans could be extended to national private firms operating in LDCs. 	<ol style="list-style-type: none"> 1. OPEC money would be raised through the issue of "OPEC Development Bonds" in international capital markets. OPEC would purchase 20-25% of the total subscription of long-term Triple A bonds (12-20 year maturities). 2. The remainder would be sold to private investors in capital markets. 3. OPEC would act as first guarantor, with the World Bank family as the second. 4. Funds would be targeted to purchases in OECD sectors operating at low capacity utilization levels; in the medium term funds would be targeted to international sectors where supply shortages are likely. 5. In the third year, intensified domestic structural adjustment efforts would commence. 6. About 20-25% of the funds would go to poorest LDCs.
Sector Investment Focus	<ol style="list-style-type: none"> 1. Projects that expand demand for OECD goods. 2. Energy exploration and alternative energy source projects. 3. IDA-related projects in poorest LDCs. 	Projects that require long-term capital purchases from OECD countries.	<ol style="list-style-type: none"> 1. Basic needs projects in the poorest LDCs (20-25% of funds). 2. Projects that generate a rate of return equivalent to that of AAA Bonds. 3. Targeting in the short term of OECD industries operating at low capacity utilization. 4. Targeting in the medium term on supply sectors where there could be shortages.
Country/ Regional Focus	<ol style="list-style-type: none"> 1. More "creditworthy" advanced developing countries. 2. Poorest LDCs. 	(Middle-income LDCs).	(All LDCs).
Benefits	<ol style="list-style-type: none"> 1. Would stimulate economic growth in the LDCs. 2. Would expand demand for exports of the OECD, leading to higher levels of employment and domestic economic activity, and fewer pressures for protectionism. 	<ol style="list-style-type: none"> 1. Would contribute to the stimulation of capital goods sectors in DCs that suffer from inadequate demand, and would also facilitate structural adjustments in DCs. 2. Would provide necessary long-term resources for LDCs to finance their demand for capital goods. 3. Would provide an additional investment outlet for surplus countries. 4. Would help develop a better structure of assets and liabilities in the financial system. 	<ol style="list-style-type: none"> 1. Would increase OECD-wide capital formation. 2. Would expand demand for goods from OECD industrial sectors with excess capacity. 3. Would have positive employment impacts and be less inflationary than current OECD domestic demand stimulation, because it would absorb liquid or near-liquid assets, and would be targeted to OECD industrial sectors operating at low capacity utilization levels. 4. Would alleviate the need for immediate structural adjustment in many DCs. 5. Would help LDCs' debt and poverty problems.

TRANSFERS AND GLOBAL STIMULATION

	OECD Investment Plan	Trilateral Food Task Force Programme Doubling Rice Production in S/SE Asia (Hayami/Takase).	Roger Hansen's Proposal: A Global Basic Human Needs Régime.
Main Characteristics	<ol style="list-style-type: none"> 1. The programme would rely on co-financing through the World Bank family. 2. Funds would not be tied to specific industries in DCs but would be directed in the medium term to sectors where supply problems will become critical: food, energy, commodities, and related infrastructure. 	<ol style="list-style-type: none"> 1. Resources would be invested in irrigation and related needs, including research, modern farm inputs, and marketing systems. 2. Target for 1993 would be to double rice production from the 1974 level of 156 million tons to 321 million tons for a population of 1.72 billion by converting 17.5 million hectares of inadequately irrigated areas and 30.4 million hectares of rained areas to adequately irrigated areas. 	<ol style="list-style-type: none"> 1. The programme would require long-term high levels of Northern funding. 2. The programme would require LDC willingness to commit funds to an altered development strategy. 3. Funds would be allocated by an international agency on the basis of an LDC's programme performance and yearly budgetary needs. 4. The agency would monitor programme performance to assure that funds are being used in accordance with negotiated programme guidelines.
Sector Investment Focus	Projects related to food, commodities, energy and related infrastructure.	Rice production.	Basic needs development projects in LDCs.
Country/Regional Focus	(All developing countries).	Countries in South and Southeast Asia.	(Developing countries committed to basic needs programmes).
Benefits	<ol style="list-style-type: none"> 1. Would stimulate demand and increase production in both LDCs and DCs. 	<ol style="list-style-type: none"> 1. Would improve the supply-demand balance for food and have income-creating effects which would enhance the purchasing power of peasants. 	Could substantially reduce or eliminate absolute poverty for the one billion people who now exist in this state.

Source: Overseas Development Council, Washington, D.C., 1978.

Exports and industrialization in an orthodox model: Chile, 1973-1978

*Ricardo Ffrench-Davis**

Many developing countries have been applying export promotion policies during the last fifteen years. Among them, mention may be made of Brazil, Colombia, Hong Kong, Israel, Mexico, Singapore, South Korea, Taiwan and Yugoslavia. The conditions, timing, mechanisms and effects differ from one case to another and cover a broad range of political and economic models. The variety displayed by the various kinds of past experience show above all that export promotion is not exclusively linked to a given model.

This article examines the most outstanding aspects of export promotion in Chile between 1973 and 1978, analyses the influence which various structural and conjunctural aspects of the Chilean economy have had on the composition and level of exports, and examines some repercussions on the development of domestic industry.

Section I sets out the main aspects of the external trade policies applied between 1973 and 1978. The next section studies in detail the evolution of exports by categories of products and market destination; the analysis is extended to cover the period 1965-1978 with the aim of giving a broader perspective for appraising the expansion of the sector. In section III, an examination is made of the economic framework in which the expansion of non-traditional exports has been achieved and the effects which some of these exports have had on the national economy. On the basis of this information, a brief comparison is made with the experiences of other countries. Finally, section IV gives some brief conclusions and outlines an alternative strategy which could satisfy national needs more efficiently.

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I The external trade policy and its most outstanding characteristics

The economic policy which has been in force in Chile since 1973 assigns a predominant role to the expansion of exports. Chilean policy in these years has been extremely orthodox, for it has involved the drastic liberalization of imports, an unrestricted opening-up to foreign investment, and a pronounced anti-State approach expressed in abstention from direct intervention in production activities and in the "neutrality" of indirect economic policies, all within the context of profound faith in the competitive functioning of the market. These two lines have been followed systematically during the five years for which the present model has been applied.¹

Non-traditional exports have increased significantly, leading some observers to speak of a new case of economic expansion after the style of South Korea. The conditions surrounding the two cases are, however, very different, and the prospects seem to be even more dissimilar, especially as regards the industrial sector.

The most noteworthy characteristic of the present external trade policy is its marked movement towards free trade, through which it endeavours to attain a situation in which international prices (of goods tradeable with the exterior) prevail in the whole of the national economy, there is free entry and exit of capital, and the exchange rate is determined by the market. The external trade policy thus coincides with the general tone of the entire economic programme, which seeks to minimize the State's participation in economic activities.

1. *The principal measures*

The central element of the external trade policy has undoubtedly been the drastic

¹The apparent "neutrality" has been applied within a context of inequality in the various fields of national activity, and the predictable result has been a notably greater concentration of power and wealth.

reduction in the high tariff protection which import substitution enjoyed when the new régime took over. The goal of the liberalization process has undergone significant changes during the application of this process, however: thus in mid-1974 the maximum target tariff contemplated by the liberalization policy was 60%,² but towards the end of that year it

was hinted that the maximum tariff accepted in the future would be only 30%,³ and a little afterwards a maximum target tariff of 35% was formally established, which is the tariff that served as a guide for the successive tariff reductions carried out up to 1977, as shown in table 1.

Table 1

TRADE LIBERALIZATION, 1973-1979
(Customs duties on CIF value)

	12/73	6/74	8/75	2/76	8/77	7/79
Maximum rate	≥ 220%	140%	90%	80%	35%	10%
Most frequent rate	90%	60%	40%	35%	20%	10%
Average rate	94%	67%	44%	38%	18%	10%

Source: Central Bank. The dates given in the table correspond to the first and last decrees establishing tariff reductions, with 4 of the 10 intervening decrees. The rates quoted do not include the special exceptions, which mostly refer to the automotive sector.

Apparently, according to repeated official statements, the process of reducing the protection for import substitution should have terminated in August 1977, when the tariffs stood, with only a few exceptions, at between 35% and 10%, but three months later the Ministry of Finance announced another change of policy which consisted in reducing the tariffs even more with the aim of arriving at a uniform rate of 10% by mid-1979. This is an unusually low rate for a developing country, and its total lack of selectivity is exceptional even for the most developed countries of the world.⁴ In reality, tariffs of this type are usually proposed only in the most orthodox texts on international economics.

Exports were promoted in three ways: through an increase in the real effective exchange rate; through the promotional work of a public institution called PROCHILE, and through such incentives as the reimbursement of the value added tax (IVA).⁵

Indirectly, the expansion of exports has been helped by the drastic reduction in total domestic demand brought about by the economic policy: a phenomenon which was particularly intense in 1975, when the rate of open unemployment rose to 20% and manufacturing output went down by 24%.

The exchange rate rose appreciably during 1974 and 1975, and within the context of a depressed domestic economy (a situation

²University of Chile, *Taller de Coyuntura*, N.º 13, September 1974, p. 29.

³S. de la Cuadra, "Estrategias de liberación del comercio exterior chileno" in Banco Central de Chile, *Estudios Monetarios IV*, 1976, section V.

⁴Details on the tariffs in force in South Korea in 1976 and the aims of a tariff reduction process which was in the course of preparation are given in B. Balassa, "Incentives for economic growth in Korea", in *Policy reform in developing countries* (New York, Pergamon Press, 1977), pp. 148-151. Details on non-tariff restrictions and tariff dispersion applied by the United States, Japan and the

European Community to products of interest for Latin America are given in P. Mendive, "Protectionism and development: New obstacles of the centres to international trade", in *CEPAL Review* N.º 6, second half of 1978.

⁵Two other instruments — export credits and reductions in the ex-customs cost of imported components — were of less relative significance. The reimbursement of the value added tax, which is effected by varying the application of this tax according to the destination of the goods, is compatible with the "neutrality" of the economic policy.

which was notably accentuated from the second half of 1974 onwards) this facilitated the disposal abroad of a growing proportion of national production. At the same time, PROCHILE carried out promotional and information work which helped to strengthen an export-oriented mentality among businessmen and to open up new markets abroad; these efforts received decisive support during the entire period that Chile belonged to the Andean Pact, an integration grouping with five other South American countries⁶ which until 1976 constituted the main destination for increased non-traditional exports (see table 8). In addition, incentives were established such as the reimbursement of the value added tax paid on inputs and exemption from payment of this tax on the exports themselves, while more recently generalized tariff exemptions have been introduced in respect of imports of inputs to be used in the manufacture of goods for export.

The exchange policy covers the fixing of the exchange rate and the rules for access to the foreign exchange market. On repeated occasions, various leading personalities in the economic team have stressed the desirability of adopting an exchange rate policy free of State intervention in both aspects. During the last five years, however, an exchange rate administered by the Central Bank has been maintained, and some restrictions on access to the foreign exchange market still remain. Thus, the foreign exchange policy constitutes the main deviation—and perhaps the only important one—of the present economic policy from the traditional recipes given in orthodox economic texts.

Up to mid-1976 the exchange rate was adjusted two or three times a month. From July of that year, however, the changes were made daily and were announced monthly in advance. This system was maintained up to February 1978, when a table of daily changes

⁶An examination of the main characteristics and implications of the Andean Pact (Cartagena Agreement) was made in R. Ffrench-Davis, "El Pacto Andino: un modelo original de integración", in E. Tironi, ed., *Pacto Andino: carácter y perspectivas*, Instituto de Estudios Peruanos, Lima, 1978.

was published for the rest of that year. The size and direction of the changes have varied over the last five years. In a first stage the size of the mini-devaluations was such that it enabled the real exchange rate to go up considerably, as may be seen from column 2 of table 2. From the beginning of 1976, however, this tendency was reversed, and in June 1976 and March 1977 there were even two devaluations which led to sharp reductions in the real exchange rate amounting in total to a deterioration of the order of 25% in this period.⁷ After a few months, however, an opposite policy was adopted which involved two successive devaluations leading to a partial recovery of the real level reached in 1976. Consequently, the evolution of the real price of the dollar in Chile has been unstable and has caused fluctuations in the relative profitability of exports.

In the foreign exchange field it should also be noted that there has been a progressive

Table 2
REAL EXCHANGE RATE
(Pesos per US dollar)

Date	Nominal exchange rate (1)	Real exchange rates (2)	Real percentage variation between dates indicated (3)
1974	0.83	21.71	
1/76	9.19	27.18	25.2
6/76	13.54	23.31	-14.2
7/77	20.96	20.66	-11.4
10/77	24.70	22.25	7.7
2/78	29.12	25.11	12.9

Note: The nominal exchange rate (in pesos per dollar) was deflated by a simple average of the consumer price index and the domestic component of the wholesale price index, and inflated by an index of external prices, the base of both indexes being 100 for the 1977 average. The methodology for estimating the index of external prices is described in R. Ffrench-Davis, *Políticas económicas en Chile, 1952-1970* (Santiago, Chile, Editorial Nueva Universidad, 1973), appendix 1. The dates correspond to changes in exchange policy.

⁷The results are extremely sensitive to the index of domestic prices used as a deflator, especially during 1974. Here, the combined index described in the note to table 2 was used.

liberalization of access to the purchase of foreign exchange. This is reflected, for example, in the increase in the foreign exchange allowance available to Chilean tourists and the reduction of controls on obtaining foreign exchange to pay for imports. Certain controls still remain, however, on the contracting of debts abroad and the purchase and sale of foreign currency.

2. Trade expansion and the balance of payments

As already noted, trade with the exterior has been affected by a number of economic policy measures. Let us now see what effects these have had on the volume of trade.

Practically all trade operations with the exterior have expanded during the last five years, particularly in the fields of imports and non-traditional exports. The most notable exception is the low real level of imports of machinery and equipment.

In the field of imports, the behaviour of the different categories of goods is very heterogeneous.

Imports of machinery and equipment show a decline of over 15% between 1970 and 1978. These imports not only went down compared with other purchases abroad (their share in total imports dropped from 20% to 12%), but also fell in absolute terms (measured in dollars of constant purchasing power). This deterioration reflects the scanty investment which has accompanied the present economic policy, since domestic production of capital goods also went down during this time.

In contrast, imports of non-food consumer goods—a category which includes most, if not all, imports of luxury goods—rose by 112% and accounted for 15% of total imports in 1978, i.e., *more than total imports of machinery and equipment.*

To sum up, then, Chile is now importing on a large scale many kinds of goods which domestic industry had been supplying to an increasing extent for decades past, and a large proportion of these “non-traditional imports” have taken the place of domestic products which, in *normal* conditions (“reasonable” levels of protection and a level of total demand

which is not depressed), could be manufactured efficiently. This topic, however, like those of imports of luxury goods and the most efficient way of replacing those types of production which really were inefficient, will not be tackled here so that we may return without delay to the consideration of the topic of exports.

Non-traditional exports underwent a marked expansion, which was particularly noteworthy in 1975 and part of 1976, in spite of the recession on international markets. With the notable exception of some agricultural products and one mining product, however, most of the non-traditional exports have shown some slackening of their growth rate from the second half of 1976 onwards (see table 4). This is explained by four factors: the recent reactivation of domestic demand, the withdrawal from the Andean Pact, the exchange rate revaluations, and the extremely low rate of domestic investment. All these factors have joined together to operate simultaneously as a brake on the sustained expansion of non-traditional exports. We shall return to this topic in the next section.

Table 3

BALANCE OF PAYMENTS, 1977-1978 (In millions of dollars at current prices)

	1977	1978
Exports FOB	2 177	2 480
Imports CIF	2 244	3 002
<i>Trade balance</i>	-67	-522
Interest and profits	-362	-463
Others (freight charges, tourism, etc.)	30	170
<i>Balance on current account</i>	-399	-815
Non-compensatory capital (Direct investment)	392 (19)	1 432 (162)
Balance-of-payments position	-7	617

Source: Central Bank of Chile. The figures correspond to an estimate based on figures given in the *Boletín Mensual*, June 1979, and data on external trade indicators of the same date. The nominal price of copper in 1977 and 1978 was 59.3 and 61.9 US cents per pound, respectively.

The balance of payments showed deficits on the trade and current accounts in both 1977 and 1978, and both these deficits show a tendency to increase. Obviously, however, their future size will depend on the evolution of the price of copper and the way in which the economic policies which most directly influence the behaviour of the external sector are applied: the design of policies relating to total demand, level of investments, industrial development strategy, exchange rate, tariffs, etc., will have a decisive influence here.

In spite of these deficits, the Central Bank accumulated a high level of gross international reserves in 1977 and large gross and net reserves in 1978. This was due to an extraordinary inflow of financial funds (above all from banks) which came to more than double

the amortization payments on the external debt scheduled for 1978. Part of the surplus was tapped by the Central Bank, which thus increased its international reserves, while the remainder of this greater gross indebtedness on the part of Chile was used to cover the growing expenditure on imports and the consequent balance-of-payments current account deficit.

Direct foreign investment has recorded minimal levels during the five-year period, in spite of the adoption of increasingly favourable rules for foreign capital. Even in 1978, when the total amount was more significant, the net investment still represented only one-fifth of the external saving received by Chile, and most of that corresponded to the purchase by Exxon of a Chilean copper mining company.

II

Composition and level of exports

In this section the behaviour of Chilean exports between 1965 and 1978 will be examined from three angles. Firstly, their evolution will be analysed according to whether the exports are traditional or new; secondly, the contribution of the industrial sector to exports will be examined, and lastly, the available information will be broken down according to markets of destination. Since world inflation was significant during the period studied, all the monetary values will be expressed in terms of constant purchasing power.⁸

The breakdown by categories of products and by markets of destination, together with the correction for the devaluation of the dollar,

make it possible to evaluate more accurately the actual evolution of exports and to identify the variety of tendencies shown by their various components.

1. *Non-traditional exports*

The exports of developing countries are frequently classified as "traditional" and "new", or "major" and "minor". The classification is naturally an arbitrary one. In the case of Chile, up to 1973 the traditional exports comprised copper, molybdenum, iron ore, nitrates and iodine, all of which are products of mining origin. Public agencies now also include in this category fish meal, paper, wood pulp and paperboard, which are products whose export was developed intensively during the previous decade. Non-traditional exports cover all other products.⁹

⁸It should be noted that we are speaking of *real values* and not the *volume* of exports. The index of external prices used in this study shows that the prices in the industrialized countries doubled between 1970 and 1977 and increased by a factor of 2.59 between 1965 and 1978. This index was constructed on the basis of the export unit prices of the countries which are most representative in trade with Chile. A comparison of the results given by different indexes appears in "Índice de precios externos y valor real del comercio internacional de Chile", CIEPLAN, Santiago, *Notas Técnicas*, N.º 15, April 1979.

⁹These other products include such items as lentils and wool, which have been exported for many years past, but on a much smaller scale than the exports classified as traditional.

Table 4
EVOLUTION OF EXPORTS
(Millions of dollars at 1977 prices)

	Years							Half-years				
	1965	1970	1974	1975	1976	1977	1978	1976 (II)	1977 (I)	1977 (II)	1978 (I)	1978 (II)
I. <i>Traditional exports</i> ^a	1 367.6	1 897.0	2 257.1	1 129.9	1 545.7	1 377.1	1 233.6	807.8	724.3	652.8	603.4	630.2
Copper	(1 075.3)	(1 672.9)	(2 070.2)	(920.5)	(1 342.5)	(1 178.1)	(1 049.7)	(689.9)	(626.7)	(551.4)	(518.3)	(531.4)
II. <i>Semi-traditional exports</i> ^b	41.2	93.2	174.5	129.4	210.7	215.0	226.7	112.9	105.0	110.0	107.3	119.4
III. <i>Non-traditional exports</i>	142.2	225.9	293.7	440.5	510.3	588.5	644.9	240.9	299.9	288.6	348.0	296.9
Fresh fruit	20.0	23.5	22.3	42.8	58.0	64.1	90.6	14.7	45.6	18.5	71.8	18.8
Monterey pine	3.8	7.4	11.6	21.4	21.4	54.5	65.1	12.5	27.4	27.1	35.8	29.3
Semi-manufactured copper	21.1	28.1	36.8	25.7	49.0	45.3	40.1	31.6	22.8	22.5	18.4	21.7
Molybdenum oxide	6.1	9.5	24.7	31.0	23.2	30.9	62.4	12.5	14.0	16.9	28.6	33.8
Sugar	—	—	—	42.5	—	12.4	9.9	—	—	12.4	4.8	5.1
Others	91.2	157.4	198.3	277.1	358.7	381.3	376.8	169.6	190.1	191.2	188.6	188.2
IV. <i>Total exports</i>	1 551.0	2 216.1	2 725.3	1 699.8	2 266.7	2 180.6	2 105.2	1 161.6	1 129.2	1 051.4	1 058.7	1 046.5

Source: "Estructura y destino de las exportaciones chilenas: 1965-78" (mimeo), (Santiago, Chile, CIEPLAN, March 1979). The figures for non-traditional exports up to the first half of 1976 are from the Department of Customs and the balance-of-payments reports of the Central Bank, while from the second half of 1976 they are from the Central Bank's records of shipments.

^aComprise copper, molybdenum, other copper by-products, iron ore, nitrates and iodine.

^bComprise fish meal, paper, paperboard and wood pulp.

In this study we will use three categories: (i) traditional exports, corresponding to the definition used in the 1960s, plus various by-products of copper production (such as selenium, gold and silver); (ii) semi-traditional exports, which comprise the most dynamic products of the 1960s (paper, paperboard, wood pulp and fish meal), and (iii) non-traditional exports, covering the rest of the products exported.

Total exports have undergone pronounced ups and downs from one year to another, closely linked to the variations in the price of copper, which has been the main Chilean export throughout the period.¹⁰

Leaving aside the fluctuations recorded, Chilean exports have shown a marked increase in the non-traditional categories, as may be seen from table 4, and their share in the gross domestic product (GDP) rose by 3 points between 1970 and 1977.¹¹ As a result, total exports came to 18% of the GDP in 1977.

In recent years, it has been common practice to measure the expansion of non-traditional exports with respect to 1973. This gives an erroneous view of the matter, however, since in the years 1972 and 1973 sales abroad were at abnormally low levels which underestimate the country's export capacity. This capacity is more adequately illustrated by the real exports recorded in 1970 or 1971. In order to give a broader view, table 4 also includes figures for 1965, so as to reveal whether non-traditional exports showed some dynamism before the present experience. Within this category, the four items which were most

important at the end of the period being studied have been separated out: fresh fruit, Monterey pine, semi-manufactured copper and molybdenum oxide. Separate figures are also given for exports of sugar, which involve the refining of imported raw material and were begun in 1975 but subsequently underwent large fluctuations.¹² Finally, the "Others" heading, which covers the rest of non-traditional exports, comprises many hundreds of articles as diverse as lentils and boilers. Table 5 shows the annual rates of variation of the items dealt with in the previous table.

The information set forth in these two tables shows that significant growth rates had already been recorded before 1974. Thus, although the total amount was only small, non-traditional exports grew at the rate of 10% per year between 1965 and 1970, while the "Others" group grew at the rate of 12%. The expansion of exports of manufactures was even greater, as we shall see later. Consequently, the export sector was already showing some dynamism before the application of the present model.

In 1971 many export lines continued their expansive tendency but non-traditional exports as a whole recorded a level similar to that of the year before. The prolonged freezing of the nominal exchange rate and a persistent increase in total demand helped to explain the generalized contraction in non-copper exports in the following two years. This tendency was drastically reversed when the present economic model began to be put into effect. Between the end of 1973 and 1976, the expansion in sales abroad was very pronounced: many new lines of exports appeared during this period, and there was a generalized increase in the various non-traditional lines. The overall growth continued in subsequent years, although at a more moderate and diminishing rate.

Finally, trends differ between different products. Table 4 shows that the rapid expansion of exports continued until 1978 in the case of three items, namely fresh fruit (mainly grapes and apples), Monterey pine (round-

¹⁰The figures expressed in constant purchasing power are corrected for the devaluation of the dollar, but this does not eliminate the effects of *real* fluctuations in the prices of the various export items. The real price of copper was quite high in 1968-1970, after which it was below normal levels until mid-1973; during the first year of the present régime it reached unprecedented maximum levels, but during the last four years it has fluctuated around levels which may be estimated at between 15 and 25% below the normal.

¹¹The GDP was estimated at US\$ 14,500 million and the total value of exports was recalculated, replacing the actual value of copper exports by the *normalized* value, for which purpose a price of 80 US cents per pound of electrolytic copper was used, this being considered a normal value for 1977. This calculation gives a level of exports US\$ 400 million higher than the value actually recorded in that year.

¹²The figures for exports include the gross FOB value of sales of sugar, which is classified as a manufacture.

Table 5
ANNUAL GROWTH RATES OF MAIN EXPORTS
(Real variation, per cent)

	1970- 1965 ^a	1974- 1973 ^b	1975- 1974	1976- 1975	1977- 1976	1978- 1977	1978(I) 1977(I)	1978(II) 1977(II)
I. Traditional Exports	6.8	19.0	-49.9	36.8	-10.9	-10.4	-16.7	-3.5
Copper	(9.2)	(23.7)	(-55.5)	(45.8)	(-12.2)	(-10.9)	(-17.3)	(-3.6)
II. Semi-traditional exports	17.7	55.4	-25.8	62.8	2.0	5.4	2.2	8.5
		87.2*						
III. Non-traditional exports (excluding sugar)	9.7	16.3	35.5	28.2	12.9	10.2	14.4	5.6
Fresh fruit	3.3	-5.1	91.9	35.5	10.5	41.3	57.5	1.6
Monterey pine	14.3	56.8	84.5	0.0	154.7	19.4	30.7	8.1
Semi-manufactured copper	5.9	31.0	-30.2	90.7	-7.6	-11.5	-19.3	-3.6
Molybdenum oxide	9.3	42.8	25.5	-25.2	33.2	101.9	104.3	100.0
Others	11.5	12.5	39.7	29.4	6.3	-1.2	-0.8	-1.6
		26.0*						
IV. Total	7.4	20.5	-37.6	33.4	-3.8	-3.5	-6.2	-0.5
		23.0*						

Source: Table 4.

^aAnnual cumulative rate.

^bTotal rate of variation with respect to an estimate of the "national export capacity" existing in 1973. This capacity was calculated on the basis of the actual exports recorded in 1970 and 1971, selecting the values considered to be most "normal" in each year. When the "export capacity" coincides with the real actual value for 1970, only one rate is given for each item, but when the values do not coincide, the total rate of variation between 1970 and 1974 is also shown, and is marked with an asterisk. The "export capacity" was estimated in a very conservative manner, so it tends to over-estimate the growth rate of exports during the period considered.

wood and simply worked wood) and molybdenum oxide. In contrast, the growth rate of the rest of the non-traditional exports ("Others") fell off considerably after 1976 and was practically stagnant during the last 1 1/2 years of the period.¹³ If the information is broken down by half-yearly periods, as in tables 4 and 5, the stagnation recorded in the last three half-year periods can be seen very clearly.

To sum up, then, some export items of primary sector origin continue to grow rapidly, while the remainder seem to have grown at a

definitely slower rate after 1976. It should be noted that while in the "Others" group there are many items which continue to expand, there are also many which went down in the course of the last four half-year periods covered by this study. In this context, it is the continued increase of three items based on natural resources (fruit, wood and molybdenum oxide) which explain why non-traditional exports as a whole still show appreciable growth rates up to the present, although these rates show a marked slackening compared with 1974-1976.

2. Industrial exports

In the foregoing classification, mining and agricultural exports are mixed with exports of

¹³The rate of change depends on the definition adopted for the "Others" group. If molybdenum oxide is included, the 1978 growth rate rises to 6.6%, while if semi-manufactured copper is included instead the rate drops to -2.3%.

manufactures.¹⁴ Table 6, however, concentrates on exports of industrial origin, classified in accordance with the ISIC definition. Separate figures are given for the six main items, all of them strongly based on natural resources which are abundant in Chile. Two of them, however—paper and wood pulp—involve significant manufacturing processes, although most of the production capacity existing in 1978 for these items was constructed or begun in the previous decade. As regards another two important items—fish meal and semi-manufactured copper—it will be noted that the value of exports of these items fluctuates very considerably. In the case of fish meal, the fluctuations are due to the unforeseeable changes which take place in the availability of raw material (mainly anchoveta) and the pronounced variations in world prices. The latter factor also affects semi-manufactured copper and most of the exports based on natural resources. As far as molybdenum oxide is concerned, there have been more recent increases in production capacity. It should be borne in mind, however, that the value added to molybdenum concentrate, a by-product of copper obtained by CODELCO, is normally less than 10% of the gross value.¹⁵ Moreover, the price of both these products increased by more than 50% in real terms between 1974 and mid-1978 and the upward trend on the world market was further accentuated in 1978, thus largely explaining the higher value of exports of both concentrates and oxide.

Finally, exports of unworked wood have increased rapidly, especially in the last year, and the prospects seem to indicate that this tendency will continue.

¹⁴The "Others" group in table 4 contain mining and agricultural exports which, together, represent about one-quarter of this group.

¹⁵This means that when 20 million dollars of concentrate are converted into molybdenum oxide in Chile and exported in this form, exports of the "traditional" product molybdenum go down by 20 million dollars and those of the "non-traditional" product molybdenum oxide go up by between 21 and 22 million dollars, so that the net balance, in the case of the example given, would not come to more than 2 million dollars of value added. The value added at international prices depends on the situation of the external markets: sometimes the gap between the prices for the two products increases considerably, especially in the case of sales of marginal volumes.

Table 6 also shows the evolution of the "Rest" category of exports of manufactures, which includes a great many items, some of them with high levels of processing. Their evolution could be an indication of the future behaviour of industrial exports proper. The annual growth rates of this group of exports were as follows: 16% per year in 1965-1970; 15% in 1974;¹⁶ 40% in 1975; 48% in 1976, and 3% in 1977 and 1978.

The decline in the growth rate of non-traditional exports and exports in the "Rest" category of industrial products is to be explained by the behaviour of a certain market of destination: the same one which grew fastest between 1974 and 1976.

3. Markets of destination

During the period under consideration, there was an expansion in exports to all regions of the world. Marked diversification thus occurred, with the appearance of many new markets of destination.

It was the sales to the Andean Pact market (Bolivia, Colombia, Ecuador, Peru and Venezuela) which recorded the biggest expansion, particularly in the two-year period 1975-1976. During these two years, the Andean market absorbed 37% of the increase in all non-traditional exports, as shown in tables 7 and 8. In the case of the "Others" category of non-traditional exports, the share of this market in the expansion rose to 42%. Thus, the contribution of the Andean Pact market to the expansion of new exports was very significant, especially as regards manufactures, for in 1976 over half the total metal products and machinery exports went to the Andean Pact countries. The rapid expansion of these exports came to an abrupt halt, however, with Chile's withdrawal from the Andean Pact in October 1976.¹⁷ Indeed, in the following years Chile's (real) non-traditional exports to this market went down by 2%

¹⁶The total growth rate with respect to 1970 was assigned to 1974.

¹⁷An analysis of the reasons for Chile's withdrawal and the economic costs which this had for the country is given in R. Ffrench-Davis, "Pacto Andino y librecambismo", in *Mensaje*, Santiago, October 1976, and *Estudios Internacionales*, Buenos Aires, April-June 1977.

Table 6
INDUSTRIAL EXPORTS
(Millions of dollars at 1977 prices)

	1965	1970	1974	1975	1976	1977	1978
<i>Total industrial exports</i>	130.6	248.8	371.8	428.0	561.4	625.8	681.9
Paper	16.6	19.1	30.4	30.6	35.6	33.6	24.6
Wood pulp	5.7	32.7	94.1	65.4	94.9	85.2	101.1
Fish meal	19.0	30.9	42.5	27.4	65.7	86.4	92.3
Wood ^a	7.9	17.3	15.2	26.4	28.4	60.3	72.2
Semi-manufactured copper	21.1	28.1	36.8	25.7	49.0	45.3	40.1
Molybdenum oxide	6.1	9.5	24.7	31.0	23.2	30.9	62.4
Rest of industry	54.1	111.2	128.1	179.0 ^b	264.6	271.7 ^b	279.3 ^b

Source: Central Bank, *Balanza de Pagos*, up to 1975; *Boletín Mensual and Embarques*, 1976-1978.

^aComprises Monterey pine and other woods, unsawn or simply worked.

^bExcludes re-exports of sugar, which amounted to US\$ 42.5 million in 1975, US\$ 12.4 million in 1977, and US\$ 9.9 million in 1978.

Table 7
MARKETS OF DESTINATION OF NON-TRADITIONAL EXPORTS
(Millions of dollars at 1977 prices)

Country or grouping	Value of exports					Annual growth rates (%)				
	1970	1974	1976	1977	1978	74/70	76/74	76/70	77/76	78/77
<i>Andean Group</i> (Other non-traditional exports)	40.8 (14.3)	45.7 (24.4)	125.8 (91.4)	123.3 (88.2)	108.7 (75.1)	2.9 (14.3)	65.9 (93.5)	20.6 (36.2)	-2.0 (-3.5)	-11.8 (-14.9)
European Economic Community	41.8	64.8	86.0	104.0	129.4	11.6	15.2	12.8	20.9	24.4
Brazil	16.9	34.9	41.2	61.7	53.8	19.9	8.7	16.0	49.8	-12.8
Argentina	37.7	55.8	77.2	61.5	70.8	10.3	17.6	12.7	-20.3	15.1
Japan	15.4	15.7	18.5	30.3	31.8	0.5	8.6	3.1	63.8	5.0
United States	30.7	30.6	72.7	51.1	98.6	-0.1	54.1	15.5	25.3	8.2
Rest	42.6	46.2	88.9	116.6	151.8	2.0	38.7	13.0	31.2	30.2
<i>Total non-traditional exports</i> (Other non-traditional exports)	225.9 (157.4)	293.7 (198.3)	510.3 (358.7)	588.5 (381.3)	644.9 (376.8)	6.8 (5.9)	31.8 (34.5)	14.5 (14.7)	15.3 (6.3)	9.6 (-1.2)

Source: CIEPLAN, "Estructura y destino de las exportaciones chilenas: 1965-78", *op. cit.*

and 12%, respectively (see table 7). The significance of the Andean market for Chile is even greater if exports based on the intensive use of natural resources are excluded, as the advantages given by the preferential access to this market have less incidence in this case.

The diversification of markets is reflected in the expansion of the "Rest" group, which included some 70 countries in 1977. Despite the increase in this number of countries and Chile's withdrawal from the Cartagena Agreement, however, the Andean Group countries

Table 8

SHARE OF EACH MARKET IN THE GROWTH OF NON-TRADITIONAL EXPORTS
(Millions of dollars at 1977 prices)

Country or grouping	Amount of increase				Percentage share in growth			
	1974- 1970	1976- 1974	1977- 1976	1978- 1977	1974- 1970	1976- 1974	1977- 1976	1978- 1977
<i>Andean Group</i> (Other non-traditional exports)	4.9 (10.1)	80.1 (67.0)	-2.5 (-3.2)	-14.6 (-13.1)	7.2 (24.7)	37.0 (41.8)	-3.2 (-14.2)	-25.9 (-291.1)
European Economic Community	23.0	21.2	18.0	25.4	33.9	9.8	23.0	45.0
Brazil	18.0	6.3	20.5	-7.9	26.6	3.0	26.2	-14.0
Argentina	18.1	21.4	-15.7	9.3	26.7	9.9	-20.0	16.5
Japan	0.3	2.8	11.8	1.5	0.4	1.3	15.1	2.7
United States	-0.1	42.1	18.4	7.5	-0.1	19.4	23.5	13.3
Rest	3.6	42.7	27.7	35.2	5.3	19.7	35.4	62.4
<i>Total</i> (Other non-traditional exports)	67.8 (40.9)	216.6 (160.4)	78.2 (22.6)	56.4 (-4.5)	100.0 (60.3)	100.0 (74.1)	100.0 (28.9)	100.0 (-8.0)

Source: Table 7.

still had more weight than the "Rest" in 1977, although the difference between the two groups of countries, which was extremely marked between 1974 and 1976, was drastically reduced after Chile withdrew from this integration scheme, and the proportion was reversed in 1978.

To sum up, the loss of the formal and informal preferential treatment which Chile

had enjoyed in the most dynamic of its markets of destination had negative repercussions on the exports involving the highest degree of processing (or value added on the natural resource component), which are those forming the majority of the "Others" group of non-traditional exports and the "Rest" group in exports of manufactures.

III Effects of exports and future prospects

The external and internal economic framework within which the export process has been carried out has influenced the behaviour of this variable, and the explicit consideration of this framework makes it possible to appraise both the effects which exports could have had on national development and the future prospects which they may offer.

1. *The economic framework*

The external situation faced by exports undoubtedly influences their evolution. Since

1975, conditions on international markets have become more unfavourable for the expansion of the exports of non-oil-exporting developing countries, and this has naturally also affected Chile in various export lines.

The domestic context, for its part, shows a number of outstanding changes. Although most of these had a negative effect on the national economy and the development of the country, some of them, such as the depression of domestic demand and the deterioration of wages, did facilitate the expansion of exports. Among the features which have negatively

influenced exports, apart from the withdrawal from the Andean Pact, are the absence of economic growth in these five years and the low level of domestic investment.¹⁸

The Chilean economy has suffered a serious depression in effective demand, caused mainly by the way economic policy has been run.¹⁹ After some degree of "normalization" of economic activity during the first year of application of the current model, a sharp drop in demand led to a 13% fall in the per capita gross domestic product in 1975.²⁰

In the following three years, the official figures show a significant reactivation, but it must be repeated that the per capita GDP has still not recovered the level of 1974. In other words, the effective production of the country has not grown during the five years of application of the present economic model, so that the increase in exports has been achieved either through a change in the composition of the GDP, or at the expense of domestic consumption, or thanks to the under-utilization of the installed capacity for the domestic market caused by the economic policy. These three factors are present, although in different proportions, in many of the new exports; two significant cases will be examined later.

In the labour field, on the one hand trade union activity has been drastically restricted, while on the other open unemployment rose from historical levels of the order of 6% to around 20% of the labour force in 1975. Subsequently, the employment situation improved a little, and since the end of 1976 the unemployment has been around 13%, but even so this is over double the unemployment rate of

the previous five-year period.²¹ Finally, wages underwent a marked drop in real terms in 1974, and although by 1978 they had gradually recovered according to the official index of wages and salaries, their levels was still only close to that of 1970. Over the last five years, the ratio of the exchange rate to wages was favourable to the former, thus raising the profitability of exports. From a purely economic point of view, and in the short run, these three aspects—repression of trade union activity, unemployment and low wages—facilitated the expansion of the export sector.

Lastly, investment was at a depressed level throughout the period. In 1978—once again according to the official figures of ODEPLAN—gross fixed domestic investment amounted to less than 12% of the GDP. This percentage is markedly below historical levels, and is barely enough to compensate for the attrition of the stock of capital. In reality, after five years neither foreign direct investment nor domestic private investment have come up to the expectations of the supporters of the economic model. Regardless of the political and economic system followed by Chile, there can be no doubt that an increase in investment is essential if the rapid expansion of exports as a whole is to be supported and the effective growth of production is to be reinitiated.

2. Origin of exports

As already noted, an increase in exports may be due to greater utilization of production capacity, an increase in such capacity, or a reduction in domestic consumption.²²

Although the depression in the domestic market had negative economic and social con-

¹⁸The fact that there was some investment in the production of exportable goods does not signify a contradiction with this statement, as will be shown later.

¹⁹See J. Ramos, "El costo social: hechos e interpretaciones" in *Estudios de Economía*, University of Chile, Santiago, second half of 1975, and A. Foxley, "Inflación con recesión: las experiencias de Brasil y Chile" in *Colección Estudios CIEPLAN*, N.º 1, Santiago, 1979.

²⁰These are official ODEPLAN estimates, reproduced in issues of the *Boletín Mensual* of the Central Bank. The figures refer to the concept of GDP expenditure: that is to say, the loss of income recorded in 1975 due to the deterioration in the terms of trade caused by the drop in the price of copper and the rise in the price of oil has been deducted from them.

²¹These figures are taken from the data published quarterly by the Department of Economics of the University of Chile, which refer to the city of Santiago, where approximately 40% of the economically active population live. Unemployment in the rest of the urban centres of the country is even greater, according to surveys by the same institution and by the National Statistical Institute (INE) covering the years 1977 and 1978.

²²An expansion in exports can also derive from an increase in sale prices greater than the increase in the index of external prices used to deflate all the monetary values, or from a change in the structure of consumption.

sequences, it facilitated the increase in exports. From another angle, the expansion in exports provided an outlet for production surpluses which would otherwise not have found a market, because the excessive restriction of domestic demand, particularly during the period from mid-1974 to 1976, left a significant proportion of Chile's economic activities with under-utilized production capacity. The simultaneous existence of a rising real exchange rate and the access to the Andean market during this period made it possible to provide an outlet for part of these production surpluses.

Broadly speaking, then, it can be said that in these circumstances the expansion of non-traditional exports made it possible to increase the efficiency of assignment of resources, mainly through increasing their rate of utilization. During a period of shortage of foreign exchange, as was the case in 1975, the new exports also helped to reduce the severity of the bottleneck brought about by the balance-of-payments situation that year, and subsequently the expansion of exports tended to make it easier to obtain external credit.

Naturally, the subsequent reactivation of domestic demand tends to bring about the opposite effect as regards the exportable surplus, since it helps to reduce the volume of exports. The symmetry in this case is only partial, however, since Chile's export potential was insufficiently utilized at the beginning of the period. It is therefore likely that a considerable proportion of the exports facilitated by the 1974-1976 depression will continue to be available afterwards, although their growth rate will not be as high as in those years.

The production capacity of the national economy as a whole has stagnated during the last six years, although its composition has tended to change in favour of certain export activities. This process has been slow and limited because of the scanty dynamism of the national economy, since the restructuring of production capacity is easier in an economy which is growing rapidly and has a high rate of investment. Neither of these two conditions was present during the period under consideration. The export incentives did, however, encourage some investment in this activity and the production capacity of some sectors was

increased.²³ Among the new investments, reference may be made to one substantial investment project, completed in 1978, which was carried out by the State-owned steel company (CAP) and was designed to produce pellets from domestic iron ore.

Another two areas in which investment was significant during recent years are plantations of timber trees and orchards and vineyards. Approximately half of the planting of timber trees was carried out directly by the State, while 75% of the cost of the investment made by the private sector in this field were covered by subsidies. Both ways of promoting investment constitute exceptional situations in view of the economic model, and indeed it was announced that direct public sector investment in forestry activities would be terminated as of 1979.

Between 1968 and 1972 quite large plantations of orchards and vineyards were carried out under the encouragement of the fruit-growing development plan then in force, and thanks to selective credits, the construction of fruit packing centres, and investments in areas affected by the process of agrarian reform, there was an increase of 60% in the area planted with fruit trees and vineyards between 1965 and 1974.²⁴ Since 1976 this type of investment has regained importance and is increasing. Recent plantations have been carried out and financed mainly by the private sector and are located in many medium-sized units in various regions of the country. It goes without saying that the expansion recorded up to 1978 in exports was not due to these more recent investments, because of the period needed for these plantations to come into production. Moreover, in the case of plantations of timber trees, the period is much longer: Monterey pine, for example, takes between 18 and 25 years to reach its optimum point for exploitation as timber. Conse-

²³As the net domestic investment has been insignificant in macro-economic terms, part of the depreciation of other production sectors has been reinvested in export activities. There has also been some conversion prompted by the big changes in relative profitability generated by the economic policy.

²⁴Figures quoted in J. Franco Mesa, "El desarrollo agrícola en el período de reformas", *Mensaje*, N.º 274, November 1978.

quently, the expansion of exports in recent years has been due to investment made before 1973, although the substantial investments made in both fields in the following five years will make possible future exports.

In order to identify more accurately the sources of the expansion of exports, it would be necessary to have information on the production (and/or domestic consumption) and investment recorded in the various export fields. This information is unfortunately very scanty and often deficient in quality, but some data are available on certain sectors. The information below refers to two items: wood pulp and timber.

The production of wood pulp acquired importance during the past decade, when there was a considerable increase in the value of exports of this item. Its expansion was more marked between 1974 and 1977, however, when wood pulp alone accounted for one-seventh of all industrial exports. This expansion was due to the initiation of production at two wood pulp plants promoted by the public sector in the 1960s and scheduled to begin activities in 1972 and 1973, respectively, although in actual fact they began commercial production in 1974 and 1976. The exports by these two plants, which came to US\$ 54 million in 1977, account for practically all the real expansion in this item since 1974.

Exports of timber comprise two main components: sawn wood and roundwood (trunks). Information on the production of sawn wood is much scantier because of the large number of sawmills where it is cut. At all events, the available figures indicate that the installed capacity is much greater than the actual production, so that, within certain margins of sale prices, the production depends to a decisive extent on demand.

Domestic demand for wood is very sensitive to the level of activity in the construction of dwellings and the manufacture of furniture. Both sectors have been in markedly depressed conditions, both with respect to 1974 (a year of intense activity in construction) and in comparison with immediately preceding years. Thus, consumption of sawn wood in Chile in 1977 is estimated to have been 35% below the average for the period 1970-1974. The volume

of exports, in contrast, increased about five-fold.²⁵ This expansion made it possible to compensate for the drop in domestic demand and provide an additional market for an increase in production of around 30%. The increased exports are therefore due, in relatively similar proportions, to a reduction in domestic demand and an increase in production.

Sawn wood represents about 10% of non-traditional exports, an sawn wood and wood pulp together amount to a quarter of total exports of manufactures.²⁶ Consequently, in view of their significant weight in exports, the information on these two items gives a picture of the behaviour of an important segment of the increased national exports, their production and their domestic consumption.

Moreover, what happened in the forestry sector suggests the direction of the predominant trend which will be followed by exports under the current model. The production of wood pulp —i.e., a processed forest product— increased because of the existence of establishments whose construction was decided upon and begun in the 1960s. This means that any further expansion of the installed capacity is subject to new investments, which are not under way and which, even when made, would require a long lead time. The item with the highest growth rate in 1977 was sawn wood, which has a very low level of processing. Moreover, the most dynamic item in 1978 was roundwood, which does not require any processing at all.²⁷ In short, a tendency is visible towards an increasing preponderance of exports which make intensive use of natural resources with a generally decreasing level of processing.²⁸ This hypothesis is backed up by the notably slower growth displayed in 1977 and 1978 by exports in the "Rest" section of industrial goods (table 6).

²⁵The increase in value in real terms was 250%.

²⁶The ISIC classification lists simply worked wood as an industrial product, in spite of its minimal degree of processing.

²⁷Exports of roundwood began in 1976 after the prohibition which had previously prevented them had been lifted. This item, too, is included under industrial exports.

²⁸There are items involving a higher grade of processing in which investments are in progress, such as paper: this is why we are speaking of *tendencies* and averages.

3. Some comparisons with the experience of other countries

A comparative analysis with the experience of other countries involves very great difficulties because of the large number of variables affecting the behaviour of exports and the solidity of national development.²⁹ However, comparison of some basic data does serve to demonstrate that export promotion can be incorporated in models which are very different from each other and that the promotional effort does not of itself ensure sustained development.

In the case of two countries —Brazil and South Korea— which were successful in expanding their exports over a long period, this expansion took place in conjunction with a significant increase in the national product and in the investment rate (table 9).³⁰ Regardless of the nature of the causal relationship between these variables, there can be no doubt that the three phenomena mutually support each other. The increased exports were concentrated in manufactures, especially in South Korea (a country which does not possess abundant natural resources), and the expansion in exports was accompanied by vigorous development of industrial production. In both countries, export promotion included numerous incentives, and it did not involve any indiscriminate liberalization of imports.

The expansion of South Korean exports, which began from insignificant levels, is concentrated on labour-intensive manufactures.

²⁹An additional problem arises from the considerable differences between different sources of information and the marked influence exerted by the period selected for study in each case.

³⁰Recent analyses on South Korea are given in Ch. Frank and others, "Foreign Trade Régimes and Economic Development: South Korea", New York, National Bureau of Economic Research, 1975, and in Balassa, *op. cit.*, chapters 8 and 9. With regard to Brazil, see E. Bacha, "Issues and evidence on recent Brazilian economic growth", and P. Malan and R. Bonelli, "The Brazilian economy in the seventies: old and new developments", in *World Development*, January-February 1977; H. García, "La política de promoción de exportaciones de manufacturas en Brasil"; CEPAL (ed.) *Políticas de promoción de exportaciones*, Santiago, Chile, 1978, Vol. V; and A. Fishlow, "Foreign trade régimes and economic development: Brazil" (mimeo), 1976.

The growth in these exports has been extraordinarily rapid: between 1963 and 1973 real total exports grew at a cumulative rate of almost 40% per year, and manufactures amounted to 88% of total exports in 1973.³¹ The main market for the new exports was the United States, followed by Japan. At the same time that exports were expanding, the gross domestic product also grew rapidly at rates of the order of 10% per year during a whole decade.

As regards import policy, it should be noted that export incentives were used which meant that the effective exchange rate tended to be relatively equivalent to that corresponding to imports in the same line. That is to say, the protection for exports and for import substitutes was, *on average*, relatively similar. This took place, however, within the context of *differentiated* protective tariffs whose levels ranged from 0 to 15%, a substantial proportion of the items being located between 30 and 60%.³² Although a certain proportion of these tariffs were redundant, the fact remains that export promotion in South Korea is not carried out in a traditional context of free trade.³³

In the case of Brazil, which also achieved noteworthy expansion of its production and exports, its real total exports grew at the rate of 9% per year between 1963 and 1973, while exports of manufactures grew by 23% per year. The most important market for the new exports, especially for machinery and transport equipment, was the Latin American Free Trade Association (LAFTA). In contrast, the markets of the developed countries are of greater relative importance for exports of industries making intensive use of raw materials (foodstuffs, footwear, wood, textiles). The expansion of exports took place against the background of a

³¹See Ch. Frank and others, *ibid.*, table 6.1. It should be borne in mind that the use of 1973 as the terminal year tends to overestimate the rate of increase because of the conditions then prevailing in the international market.

³²B. Balassa, *op. cit.*, table 9.4.

³³In the specific field of exports, as well as direct monetary incentives there are other incentives connected with government attitudes and methods. Thus, for example, firms which fulfil the goals of the national export plan "receive more favourable treatment from tax inspectors, which is an important incentive in a country where the effective rates of taxes are fixed through administrative procedures rather than by law". Ch. Frank, *op. cit.*, p. 233. Of course, this is not the best promotion mechanism.

Table 9

PRODUCTION, INVESTMENT AND EXPORTS IN SOUTH KOREA, BRAZIL AND CHILE

	Investment coefficient	Annual growth rates			
		GNP	Industrial production	Exports	
				Total exports	Exports of manufacturers
(1)	(2)	(3)	(4)	(5)	
<i>South Korea</i>					
1963-1968	17.5	9.5	17.4	39.4	52.9
1968-1973	25.1	11.0	17.5	37.3	41.0
<i>Brazil</i>					
1963-1968	18.0	4.9	5.9	5.6	20.1*
1968-1973	22.4	10.3	12.6	13.3	22.8
1970-1975	24.6	9.3	10.3	9.8	13.6
<i>Chile</i>					
1973-1978 ^a	10.6	1.9	0.6	1.6	34.9
1973-1978 ^b	10.6	1.1	-0.2	-1.4	18.9

Sources: *South Korea*: Ch. Frank and others, *op. cit.*, tables 2.4 to 2.8 and 6.2; B. Balassa, *op. cit.*, p. 132.

Brazil: H. Garcia, *op. cit.*, tables 7 and 8; A. Fishlow, *op. cit.*, Tables A.I and A.III. Column (4) includes manufactures and semimanufactures, and the asterisk indicates that the figures refer to the period 1964-1969. Figures for the period 1970-1975 were added to show the situation after the world trade boom which came to an end in 1974.

Chile: Columns (1) and (2) were calculated on the basis of official ODEPLAN estimates; column (3) comes from the index published by the Sociedad de Fomento Fabril (SFF), and columns (4) and (5) have the same sources as tables 4 and 6. In columns (2) to (5),^a measures the annual rate of variation with respect to the actual value for 1973, while^b estimates the "normal" level for 1973 on the basis of the actual values for 1970-1971.

Note: Column (1) measures the gross domestic fixed capital investment as a proportion of the gross national product (GNP). Columns (2) to (5) indicate the cumulative annual rate of variation for each period.

significant increase in the gross domestic product, which increased at the rate of 8% per year between 1963 and 1973. The import policy, like that referred to in the case of South Korea, also differs from the traditional free trade recipe; although the restrictions on trade were reduced, many manufactures are protected by import tariffs of the order of 80%.

A comparative evaluation of the experience of the three countries in question would require a great deal of additional information in order to answer such questions as that of the role played by the restrictions on political and trade union activities, the differences in personal and regional income distribution, the implications of the special relationship between South Korea and the United States, and the role of foreign direct investment and financial capital. The features described, however,

do exemplify some key aspects which reveal differences between these two cases and that of Chile.

The present economic policy has only been in force in Chile for a few years, so it would be dangerous to try to draw definite conclusions from it. However, probable tendencies can be determined if the first five years of the application of this policy are compared with the first five years of the policies in force in South Korea and Brazil.³⁴

Table 9 shows the basic macro-economic background information for the three countries, in values of constant purchasing power: annual growth rates of the gross national pro-

³⁴For the purpose of this comparison, 1964 was selected as the starting date of both experiences.

duct (GNP, column 1), gross domestic investment as a proportion of GNP for each five-year period (column 2); and annual growth rates of manufacturing production (column 3), total exports (column 4) and industrial exports (column 5). In the case of Brazil and South Korea, figures are also given on the second five-year period of the models in force.

The most outstanding quantitative differences lie in the positive evolution of investment, industrial production and GNP during the first five years of the Korean and Brazilian experiences, in contrast with the evolution of the same variables in the Chilean case. The behaviour of industrial and non-traditional exports of Chile for the five-year period as a whole was very satisfactory and was comparable with Brazil, but the differences become noticeable when the evolution of exports *during* the five-year period are examined. In Brazil and South Korea the tendency is maintained beyond the first five-year period and shows a rising trend for products with a higher degree of processing, whereas in Chile the last two years show a downward tendency and the reversal of trends is most accentuated for

exports with a higher degree of processing.

Thus, the extrapolation of the prevailing policies and of the present tendency of their effects indicates that Chilean exports will contribute to industrial development on a markedly more modest scale than in the other two cases. This is connected with the scanty investment recorded during the five-year period, the passivity of the public sector in line with the ideology of the official economic team, and the incidence of the rapid liberalization of imports on the demand for domestic manufactures. In these three aspects, the Chilean experience is different from those of South Korea and Brazil.

This comparison with Brazil and South Korea does not seek to present these as cases which should be imitated: from both a political and an economic point of view this is unfeasible and/or undesirable for a country like Chile.³⁵ At all events, however, it is worth repeating that, in the case of the first two countries, efforts were made to adapt economic policies to national realities, and this has not been done in the case of the extremely orthodox model imposed in Chile.

IV

Final considerations

Chile's exports of primary commodities and industrial goods have increased at a rapid rate in recent years, this phenomenon being particularly intense during the period 1973-1976. During these years, the expansion of non-traditional exports helped to reduce the negative effects of the sharp restriction in effective demand which resulted from the extreme monetarist approach used to combat first of all the inflationary process and secondly the balance-of-payments deficit faced by the Chilean economy.

The increase in exports was praiseworthy because it took place in a context of scanty investment and an economy which was in a state of stagnation during the entire five-year period; from this point of view, the promotion

of exports is one of the few positive aspects that the economic policy which has prevailed during the last five years can point to. To sum up, the current policy has been successful in the export sector, but so far it has been a failure as regards the creation of new production capacity and the generation of employment, despite the virtually unlimited powers which its executives have enjoyed.³⁶

³⁵See, for example, Ch. Frank and others, *op. cit.*, especially pages 240-244, for more specific details of the Korean case.

³⁶It should be remembered that we are not analysing here other characteristics of the current model such as the concentration of income recorded during these years, nor are we analysing the achievements registered in the reduction of inflation or the errors committed in this effort.

In studies on import substitution, a great deal has been written about the "easy" stage of the process, and there is likewise an initial "easy" stage in the promotion of the exports of semi-industrialized economies. This not to belittle the merits of either of these processes: on the contrary, these stages involve low costs and high benefits, so that it is clearly desirable to carry them out. The expansion of non-traditional exports in recent years generally falls within this stage, for it has been based on the use of abundant natural resources and under-utilized installed capacity. The under-utilization characteristic of excessively protected import substitution processes was accentuated by the big depression in domestic demand, and this situation enabled exports to be expanded without capital investment or with relatively modest investments in some lines of production.

The factors mentioned —availability of natural resources and under-utilized production capacity— constituted conditions which were necessary, but were not sufficient on their own. In order to achieve greater exports, two additional factors entered into the situation: on the one hand, an exchange policy was applied which, despite contradictory movements in 1976-1977, provided marked support for non-traditional exports,³⁷ and secondly, Chile's membership of the Andean Pact gave an expanded market for nearly 40% of the increase in new exports.

Except in a few cases due exclusively to the depression of domestic demand, most (although not all) of the new exports, generally speaking, tend to coincide more or less with the exports that other models would have developed too.³⁸ In this respect —and this is worth repeating— the promotion of exports is not an exclusive feature of the current Chilean model, and an alternative concept would also have tried to make use of the valuable natural

resources and the under-utilized installed capacity. The substantial differences between the current model and the possible alternative lie in other aspects: in the nature of the action designed to back up future expansion; in the role of exports whose "comparative advantages" lie in variables other than and/or additional to abundant natural resources; and the measures taken to increase the multiplier effect on the national economy and the degree of autonomy with respect to the exterior.

In order to support the expansion of exports it is necessary to increase national investment. The theoretical conception on which the policy of the present Chilean economic team is based holds that resources should be oriented towards "comparative advantages" and that the play of market forces, free of State interference, will secure this objective. This theoretical version, which constitutes an extreme among the various economic approaches existing at present, involves an idealized and simple conception of "comparative advantages". In reality, the problem is that comparative market advantages depend on the level and stability of the exchange rate, the level of activity of the domestic and international economies, the fluctuations in external prices, the imbalances and distortions which are characteristic of developing economies, and many other factors —especially indirect effects and dynamic considerations— which provide theoretical and pragmatic justification for external trade policy seeking to protect domestic production on a selective basis and actively regulate the market.³⁹ This regulation should be aimed at increasing the social efficiency and volume of investment. The current model has shown unsatisfactory results in both respects: the rate of investment has been very low, and a high proportion of such investment as has been made has been in luxury goods and services.

Brief mention may be made here of some requisites which are necessary in order for exports to make a significant contribution to national development.

³⁷The exchange rate is the same for all exports, but the non-traditional exports are much more sensitive to the level and stability of the exchange rate than other products such as copper and iron ore.

³⁸See, for example, S. Bitar, "Hacia la definición de una estrategia industrial", in O. Muñoz, ed., *Proceso a la industrialización chilena*, Santiago, Editorial Nueva Universidad, 1972, pp. 226-229.

³⁹A theoretical analysis which backs up this alternative approach is given in R. Ffrench-Davis, *Economía internacional: teorías y políticas para el desarrollo*, Mexico City, Fondo de Cultura Económica, 1979, chapters IV and VII.

Firstly, import substitution and export promotion are not essentially antagonistic objectives. On the contrary, industrial development can benefit from the dynamic complementation of both policies: a promotion strategy of this type requires a selective import substitution policy instead of free trade or arbitrary and excessive protectionism.

Secondly, many industrial exports can be promoted through the preferential access offered by integration process and production agreements with other developing countries: Chile's presence in the Andean Pact clearly illustrated this possibility.

Thirdly, exports do not necessarily absorb more labour than import substitution, since there is a broad range of different characteristics within both categories: in practice, the contribution to productive employment depends on the structure of each one, so that a suitably selective economic policy can make it possible to improve the contribution of the external sector to employment. An active role in this must be given to indirect instruments

(the profile of import tariffs and export incentive and the stability of exchange rate policy) and to the direct action of State bodies on investment and demand.

Fourthly, the organization and leadership capacity of the State can have a decisive influence on the durability of the exports process: whether this process is self-sustaining or not depends on the repercussions it transmits to other sectors of the economy. In order for exports to become one of the driving forces of development, they must be integrated in the national economy: i.e., they must either complement import substitution, or generate surpluses which are invested in productive activities in the country, or create a demand for domestic resources, or promote the expansion of technological know-how. Lastly, the continuation and expansion of external markets requires the State to play an active part in international meetings, in negotiations with the transnational corporations, and in the imaginative search for new forms of interrelations with other developing countries.

José Medina Echavarría: An intellectual profile

*Adolfo Gurrieri**

José Medina Echavarría is one of the most important sociologists of Latin America, and he was the sociologist who has exerted most influence in CEPAL, where he worked with minor interruptions from 1952 until his death in 1977. This article seeks to give an overall view of his work, with the central purpose of showing the mainstream that is to be found by the serious reader of Medina's work.

Medina's thinking forms a contribution of the highest value for all those who are seeking to formulate an integrated theory of development or social change. Medina began by giving his conception of social science a strict basis, because he considered that it constituted an essential instrument for the rational reconstruction of society (chapter I of this paper); he went on to carry out a lengthy examination of the particular object of sociology in comparison with the other social sciences and established a basic conceptual framework (chapter II); he used this conceptual framework to lay the foundation of the sociology of development, a task which culminated in his presentation of the "social conditions of development" (chapter III); he used these conditions as tools for analysing the history of Latin America and evaluating its present situation, and in the light of this situation, which he considered to be very unsatisfactory, he stressed above all others the intrinsic values of democracy as a form of social coexistence, underlined its compatibility with the pursuit of economic development through planning, and defended it from economic attacks (chapter IV). Medina's last work was to make a prospective examination of the hopes that exist for international détente and internal democracy in the light of the probable scenarios for the world order (Epilogue).

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Introduction*

*Died, did you say? No! all we know of this,
Is that he left us by a shining path,
Charging us only that we should not mourn,
But should remember him through work and hope,
Striving for goodness; seeking only that,
Which he so freely gave us: his great soul.*

(Antonio Machado)

We Latin Americans are enthusiastic devourers of theories. We do not savour them slowly, endeavouring to extract their essence with pleasure, but gulp them down rapidly, either to incorporate them whole or, on the contrary, to make them disappear and, at the same time, eclipse those who created them. How social science has suffered—and still suffers—from this fatal combination of uncritical acceptance and absolute rejection!

For this reason the spread of Medina's thought has lessened markedly in recent years. It is true that Medina was never a saint who provoked great devotion among social scientists in Latin America, but he did have his periods of great prominence—in Mexico in the first half of the 1940s, or when, from Santiago, he contributed to the vogue of the sociology of development between the end of the 1950s and the beginning of the 1960s. However, in his last years he had the feeling that publishing his papers was more or less equivalent to throwing them into the sea; and he certainly believed that many of his colleagues in CEPAL, with whom he spent almost 25 years, shared in that indifference.

The fact that Medina's approach does not form part of the currently dominant sociological school in Latin America does not provide a complete explanation for the fact that his views barely took hold in these parts. Considering the undisputed potential richness of his work, it is clear that there are other reasons

*Among the many colleagues who kindly encouraged me and offered their comments I should particularly like to mention R. Cibotti, N. González, J. Graciarena, A. Núñez del Prado, A. Pinto, R. Sánchez, E. Torres Rivas and M. Wolfe. G. Weinberg ungrudgingly allowed me to benefit from his erudition and patience, while R. Prebisch not only discussed the entire text in detail, but also, through his example, constantly reminded me of the value of intellectual effort.

which hindered its spread. Firstly, there was his proverbial refusal to use institutional platforms to extol his own ideas—an attitude which, rooted in his natural modesty, became further consolidated in his mature years as a result of a profound weariness which led him to avoid the increasingly uncompromising ideological struggle. Secondly, the literary style which he used in many of his works, especially those of his maturity, did not help much to ensure that his ideas were understood.

His essays—just as his classes used to be—are complex elaborations on a central idea; from this kernel he moves backwards and forwards, shifts his view to all the aspects which strike him as relevant, and often makes use of digression and parenthesis. He scorns categorical statements, and almost never seeks to offend the reader by underlining, which he felt was like saying “attention, this is what is important!” Accordingly he presents his ideas in such a way that the reader can penetrate to them through elegant expressions and erudite suggestions which at times even seem out of place, just as reality is often discovered behind the apparent disorder of a surrealist painting. Consequently, if this posed difficulties for the sociologists who surrounded him, what a problem it must have been for economists, engineers and planners!

For this reason, the present essay seeks to help to revive Medina's thinking and the reading of his works, by endeavouring to present in a connected way the main ideas set forth in his most important writings, using the broad strokes that he himself would not have permitted. But will these really be his main ideas? Will this essay manage to grasp the core of his thinking, separating the essential from the incidental? With a writer like Medina these questions will never have a final answer.¹

¹The inevitable process of elimination which has had to be carried out here has excluded not only Medina's occasional reflexions, but also some topics—such as the role of education in economic development—which it is difficult not to regard as main ideas. The author is aware of this shortcoming, for which his only excuse is his personal judgement and the fact that it is impossible to further lengthen an already rather long article, and expresses the hope that other colleagues will analyse these topics themselves in order to round out the intellectual picture of Medina.

At all events, whether or not these are his main ideas, and whether or not one agrees with them, it is certain that they cannot be gaily thrown overboard, as he used to lament had happened to the ideas of many classical authors in his discipline. The weak and repressed sociology of Latin America cannot permit itself such waste, nor can it spend time seeking what has already been made clear, and still less can the sociologists and economists of CEPAL do this, at a time when neoclassical economists, with its simplistic assumptions about society and its rejection of sociology, is taking over as a paradigm of the social sciences in many countries. It is precisely this neoclassical domination that gives Medina's work as a whole an unexpected topicality. Few in Latin America fought as he did for an interdisciplinary approach respecting the scope of each discipline and avoiding the blinkered approach of any of the isms. Few fought so hard for an economic sociology capable of providing real sociological assumptions for use in analytical efforts in economics, thus supplying the concrete historical content which economics usually lacks. Few urged more than he did the importance of the political framework of economic activities, not only as a vital theoretical element but also as a fundamental body of ideals relating to human coexistence which he placed—as in the case of democracy—in a preeminent position.

Medina's work as a whole represents a valuable contribution for all those who wish to formulate an integrated theory of development or social change. It begins by providing social science with a rigorous foundation, since this constitutes an essential tool for the rational reconstruction of society (chapter I of this essay); it continues with detailed consideration of the specific object of sociology *vis-à-vis* that of the other social sciences, and establishes its basic conceptual framework (chapter II); it draws on this conceptual framework in order to lay down the foundations of the sociology of development, a task which culminates in the presentation of the social conditions of development (chapter III); it uses these conditions as tools for an analysis of the history of Latin America and an evaluation of its present situation (chapter IV); in the light of this situation

—which is not at all satisfactory, in his view— he highlights above all other values the intrinsic value of democracy as a mode of social coexistence, underlines its compatibility with the achievement of economic development through planning, and defends it from attacks

based on economism (chapter V); and ends with an examination of the prospects for international *détente* and internal democracy in the light of the possible world scenarios (Epilogue).

I

Science and politics in the early works

The political significance of the methodological problems

If one examines the whole of Medina's work, it is easy to conclude that, although to begin with it is devoted to methodological problems, as time goes on it acquires an increasingly substantive character, culminating in the treatment of the most urgent issues of present and future sociopolitical organization. Or, put more simply, if the logic of the social sciences stood at the focus of this concern up to 1940, that focus would seem to have shifted towards democracy in the 1970s.

This interpretation of the development of Medina's thinking is correct provided it is borne in mind that this variation does not mean a radical change of perspective, but merely a modification of the angle from which he perceives the same problems. This is so because in his thinking, as in that of many illustrious predecessors, the logic of science and political organization, reason and democracy, are intimately linked.

In the Preface to *Sociología: teoría y técnica*, Medina emphasizes that the social sciences should become true sciences, and that for this purpose they must meet the necessary theoretical and technical requirements—in other words, possess a carefully prepared system of categories and a unifying scheme, in addition to subjecting research to the strictest rules. When transformed into sciences they will be able to avoid the action of the charlatan and the 'mountebank', which is particularly important for sociology, since it "has always

suffered most from improvisation, and this is what it is important to nip in the bud among the younger elements".²

But does Medina investigate the philosophical depths of methodological problems only in order to provide social sciences with a rigorous foundation? Although this aim alone would justify the undertaking, Medina does in fact go further, since he holds that the social sciences should possess the best possible scientific foundation in order to play their instrumental function properly: in a time of crisis the social sciences must respond better than ever to the demand that they should serve as a guide for human action. Like Comte, a century earlier, he demands that the social sciences, transformed into genuine sciences, should offer substantial assistance in the formulation of a rational policy, in the sound management of human affairs.

Hence the urgent and dramatic nature of methodological problems: scientific rigour must be achieved not just as a value in itself, but as a foundation for a new way of organizing human coexistence. "To permit social science to commit suicide is equivalent to declaring the decline of our civilization to be inevitable."³ The indissoluble union between science and

²*Sociología: teoría y técnica*, 2nd. ed. (Mexico City, Fondo de Cultura Económica, 1946), p. 8. (The first edition dates from 1941.)

³"Reconstrucción de la ciencia social" (1941), in *Responsabilidad de la inteligencia. Estudios sobre nuestro tiempo* (Mexico City, Fondo de Cultura Económica, 1943), p. 62.

politics is undoubtedly one of the basic keys to Medina's entire thinking.

In the face of the spectre raised by the general crisis of those years, Medina therefore reaffirms the rationalist ideal of the need for the scientific organization of society on the basis of the knowledge supplied by the social sciences. And in his first writings, between 1939 and 1943, he elaborates upon and examines more deeply what must, in his view, be demanded of the social sciences in scientific and instrumental terms. These demands are very numerous, very complex and not always consistent, so that in analysing them Medina is obliged to enter deeply into many of the problems related to the embodiments, forms and limits of reason.

It is true that Medina's propositions can prove utopian and at times even somewhat contradictory —contradictory because of the inconsistencies which may arise from the scientific and instrumental demands he places on the social sciences —but there is no doubt that those first essays represent one of the most profound explorations of the logic of the social sciences ever carried out in Hispanic America.

The crisis as a backdrop

Towards the end of the 1930s and the beginning of the 1940s it was almost impossible to avoid the feeling of living in a critical period; Medina is no exception, and he adds his personal experience of the Spanish conflict and exile to the more widespread experience of economic chaos, the disintegration of many liberal democratic régimes and war.

This awareness of crisis is the point of departure for his thinking, and always remains the backdrop; however, he never analyses the crisis comprehensively because he feels that, to a large extent, the task has already been done by others. "Analysis of the crisis has been carried out from various viewpoints, and all the men of my generation have had to deal with the subject in some way."⁴

⁴*Sociología: teoría y técnica, op. cit.*, p. 12.

Nevertheless, the topic has a central place in Medina's thinking, and it must be reconstructed on the basis of the various references he makes to it.

In principle, and whatever the content of the crisis, he never regards it as a certain indication of a disaster which cannot be overcome. For example, in the first pages of *Sociología: teoría y técnica* he analyses the situation through which sociology was passing at the beginning of the 1940s, under the subtitle "continuity or crisis?", and emphatically asserts the primacy of the former. It is true, he says, that sociology is suffering from a crisis of objectives and methods, but the crisis is not of a fundamental nature—as was asserted by Ortega—because it does not arise from dealing with a non-existent object or using absolutely inappropriate methods. It is, rather, a crisis of growth since "as a science it is pursuing a process of maturity that marks a line of perfect continuity reflected in the constant purification of its scientific conscience and of the appropriate methods".⁵ If Medina's thinking on this subject is to be understood correctly, it must not be forgotten that, in his view, the foundations regarding the methods and purpose of sociology were laid by Comte, and the "line of perfect continuity" starts with him. In the same way, when in his last essay he returns to the "crisis of Western democracy", he emphasizes that the crisis must be defined "in its strictly etymological sense, as meaning a particular stage in the evolution of a system which is marked by sufficient symptoms of vacillation and disturbance to indicate a state of transition, ruling out neither the recovery and reinvigoration of the system of its final disintegration and collapse".⁶

But what is in crisis? Among the various components of the crisis one emerges which, because of its importance, makes it possible to place all the others in order: reason. He conceives the crisis as a phenomenon (or process) in which reason (or the process of rationalization) plays a fundamental role.

⁵*Ibid.*, p. 15.

⁶"Notes on the future of the Western democracies", *CEPAL Review*, N.º 4 (second half of 1977), p. 119 (United Nations publication, Sales N.: E.77.II.C.5).

If reason is at the centre of the crisis, what does he understand by reason? It is difficult to answer, because over the years Medina changes his view of the nature and relations of the various manifestations of reason. In this way, it may be said that if all the components of the crisis become imbued with significance in the light of the role which reason plays in them, all the manifestations of reason are ordered on the basis of what Medina calls formal rationality.

From the sociological viewpoint, Medina differentiates —following Weber— between various manifestations of reason which constitute types of rational action.⁷ Among these types he highlights formal rational action, which is that designed to achieve a given end by means of rational calculation (efficient or optimum adaptation of means to ends, prediction of consequences, and so on) and the functional organization of the elements which go to make it up (each component of action has a defined role and a defined function). Formal rational action is the ideal type of action in the field of science, technology and economics, and for that reason is usually presented as the paradigm for any rational action; such expressions as rational action consistent with aims (M. Weber), logical action (Pareto), economic action (Robbins), and technical or technological or instrumental rationality, are merely different names for it.

To a large extent formal reason is the cause of the crisis, but it is also the appropriate means of successfully tackling it. “Of course, it is to reason that we owe the conditions of this great crisis. For it has been the triumphs achieved by reason in its tenacious confrontation with implacable nature which have made man excessively powerful in a partial aspect of his life: the most external and fragile aspect. But only reason, in turn, can re-establish the balance between the intimate, repressed springs of action and the mechanism produced by a

unilateral inventiveness.”⁸ In other words, “in order at least partially to dominate the social, collective situation, man must use the same means he used successfully to impose his will to some extent on his natural, physical circumstances: patient study, previous devotion to reality as it really is ... the deployment in the face of social reality of the scientific attitude, already well tested in other problems”.⁹

There is no doubt that the Medina of those years places enormous trust in the positive role which the deployment of formal reason could have for man, or, expressed in his own words, in the value of science for human life. Nevertheless, one must not fall into the error of assuming that, in those initial stages, Medina is naively convinced of the gradual advance of reason in history, for a reality as complex as that of those years naturally ruled out any evolutionary, linear view of human events. From his very first writings, Medina observed the difficulties provoked by the deployment of reason, and with the passing of the years reaffirms that conviction.

In his first writings Medina suggests that the principal meaning of the crisis of reason is none other than that of a unilateral development of reason in favour of the dominion of nature without a parallel concern for man and society. Broadening this point of view, in an essay dating from 1939 he sketches an approach to the crisis which centres around the process of rationalization and combines the vertical and horizontal perspectives of social change.¹⁰

In formulating his approach Medina was probably influenced by K. Mannheim’s theory of the disproportion between the high level reached by man in the knowledge and domination of external nature—which is expressed in the development of the natural sciences and of the techniques linked to them—and the poor progress he has made in knowledge and control of himself and society. Moreover, there are

⁷ Medina formulates and presents this typology in his essay “La planeación en las formas de racionalidad” (1969), which appeared in *Discurso sobre política y planeación* (Mexico City, Siglo XXI Editores, 1972), but it is clearly implicit in his early writings, though in a rather embryonic form.

⁸ “Reconstrucción de la ciencia social”, in *Responsabilidad de la inteligencia*, op. cit., p. 63.

⁹ “Sentido y función de la Sociología” (1939), in *Responsabilidad de la inteligencia*, op. cit., pp. 79-80.

¹⁰ “Configuración de la crisis” (1939), in *Responsabilidad de la inteligencia*, op. cit., pp. 157-182.

indications that he also considers the thesis, so common in the English-speaking world in those years, which contrasts the great progress of 'material' culture with that of 'spiritual' culture; in other words, the imbalance between scientific and technical development and the development of the principles which guide political, educational, religious, family and other activities.

Nevertheless, as already noted, Medina does not share the evolutionary assumptions which underlie many of these theories. Following in the steps of Alfred Weber, he holds that human history is made up of three fundamental processes—civilizing, social and cultural—but only the first of these, which has scientific and technical development as a nucleus, can be conceived as linear and evolutionary, while the others, though they manifest features reflecting a degree of evolution, tend to be specific to each of the 'historical bodies'. As a result, from this viewpoint, the crises should be interpreted as maladjustments or contradictions which occur between scientific and technical progress and the socio-cultural order in which this progress occurs.

Furthermore, these contradictions must not be perceived only 'vertically', over a period of time which is the same for all men, whatever their civilizing, social and cultural differences, but also horizontally, in other words as a result of the coexistence of groups or 'peoples' with different historical tempi. This coexistence of different and unequal groups and peoples leads to a wide variety of relationships—from the 'dissemination' of ideas and institutions to economic and political conflict—which usually produce profound disturbances.

Conceived in this way, within a multi-dimensional perspective which combines the horizontal and vertical approaches, this conception of the maladjustments of the process of rationalization is of great theoretical importance for Medina, to such a point that it will appear later in his first essays on the sociology of development. The social conditions of scientific and technical development, social adaptation to the new type of life which is being created, and its positive and negative social effects, form the background to the theory of

the conditions and consequences of economic development.¹¹

However, for many of those who have reflected on this subject, the problems generated by the development of formal rationality are not limited to disproportions in its application to nature, society and culture, but also arise in relation to its 'excesses' and the results which these may have on the other forms of rationality or other types of rational action. When Medina raised these problems for the first time, two critiques of the process of formal rationalization were very much in vogue. On the one hand, Mannheim¹² argued that together with formal rationality—which he called functional—there existed substantial rationality, which he defined as "an act of thinking which reveals an intelligent view of the relations existing between the facts in a given situation". This "intelligent view", which is necessary to guide human action, requires a fairly full perspective of the situation, but the shaping of this perspective is, paradoxically, disturbed by the development of formal rationality, which, with its constant division of tasks and functions, makes knowledge partial, prevents the majority of the population from having a reasonably complete view of the society as a whole, and concentrates the power and the substantial rationality in the ruling minority. Medina does not deal with this version of the crisis of reason in his first writings, but it is clear that he believes that the social sciences can contribute to meeting Mannheim's demand that a better balance should be achieved between formal and substantial rationality. Medina feels that the role of science in the development of formal rationality is undeniable, but it is important to emphasize in addition the role it plays in relation to substantial rationality. Following Dewey, he affirms

¹¹This is also a very important point of contact between economic and sociological theory in CEPAL thinking, since the multidimensional perspective for the analysis of social change proposed by Medina has much in common with the viewpoint used by Prebisch in considering economic development: that of the penetration of technical progress into the peripheral social structure.

¹²*Libertad y Planificación Social*, translated by Rubén Landa (Mexico City, Fondo de Cultura Económica, 1942), p. 52.

that “at this point what matters is not the present results of scientific research, its body of doctrine, so much as the scientific attitude, that position of the spirit and behaviour which, amongst other features, is manifested in the capacity to use ideas as hypotheses subject to verification and proof, and not as dogmas. In this regard the future of democracy depends on the growth and predominance of the scientific attitude”.¹³

Other writers—notably W. Dilthey—hold that formal rationality, as a result of its origin in the natural sciences, is content to provide knowledge of meaningless empirical data—the disenchanted world of Weber—and that, accordingly, another rationality (later called by Medina ‘material’) is needed to make it possible to grasp the ‘meaning’, ‘significance’ or ‘value’ of human activities.

Medina considers this point of view and devotes a large part of his works of those years to demonstrating—in this case following in the steps of Max Weber—that while many of the ‘data’ of social science, in contrast to those of natural science, are defined by their meaning, this in no way means that they cannot be scientifically analysed. Material rationality—conceived as interpretative rationality or understanding—must be combined with the explanation and prediction specific to formal rationality in the methodical perspective of social science.

Everything indicates, then, that this second form of viewing the crisis of reason—which critically analyses the evolution of formal reason in order to point out its limits (what it can not offer) and its excesses (what it claims to offer without being able to do so)—is only hinted at in Medina’s early thinking and that, in addition, he feels that the problems this raises will be solved to a large extent through the proper development of the social sciences. Nevertheless, as the years pass Medina gives this view of the crisis an increasingly important role as a consequence of a clearer and less optimistic view of the function of formal reason in human life.

¹³“John Dewey y la libertad” (1939), in *Responsabilidad de la inteligencia*, *op. cit.*, p. 269.

The failure of the social sciences

After this rough outline of the backdrop of his thinking, we must pose the specific question which occupies Medina in those years. In his words: “is the already intolerable state reached by our civilization susceptible of being cured by reason, or must we abandon ourselves hopelessly to the play of blind forces?”¹⁴ “how can we understand one another amidst this chaos and disorder?”; “how can we renew our history without destructive convulsions?”¹⁵

Since within this “cure by reason” science is the fundamental medicine, we must ask: what has been and what should be the role of social science?; how has it responded to the challenge of the crisis?; must it be reconstructed so that its contribution is in line with what is expected of it?; and if so, how should we guide this reconstruction? For Medina, the response of social science to the crisis has been and remains rather discouraging, since he seems sure of the “complete uselessness of social science for solving the real problems of our everyday lives”.¹⁶ The success of natural science in the nineteenth century in the sphere of nature fed hopes of a similar triumph in the human sciences; but once these came up against the crisis, the result was “frankly negative”.

There are three reasons for this failure. Firstly, the poor links between theory and praxis, the “unbridgeable distance between what appears as a scientific construct and what we experience and perceive as reality”, between experience of life and what seems nothing more than an ‘honourable fantasy’. The construction of theory in the social sciences was guided by the desire to “refine as much as possible the traditions inherited from the various schools”,¹⁷ and in this task it has been usual to get lost in “‘profound’ thinking which, rooted in a vitally urgent human need, hoists

¹⁴“En busca de la ciencia del hombre” (1942), in *Responsabilidad de la inteligencia*, *op. cit.*, p. 29.

¹⁵“Responsabilidad de la inteligencia” (1941) in the book of the same name, *op. cit.*, p. 16.

¹⁶“Reconstrucción de la ciencia social” (1941), in *Responsabilidad de la inteligencia*, *op. cit.*, p. 42.

¹⁷*Ibid.*, pp. 43 and 46.

itself up, in fascinating attraction, until it finally hangs over a bottomless void".¹⁸ This abysmal suggestion of those who practice such 'intellectual mountain climbing' has carried social theory away from the urgent decisions of everyday life and has discredited intellectuals in the eyes of the common man.

This gap between theory and praxis takes different forms in the different social sciences. In economics, conventional economic theory effects analyses which appear fragmentary, in that they can not take into account all the significant factors in a very complex situation; out of date compared with reality, because of the great dynamism of the latter; and too general to deal successfully with problems which arise in unique circumstances. For that reason, economic theory—timeless, closed in its deductive consistency, and free of empirical contrasts—is not valid for a reality which is "interdependent, dynamic and capable of being grasped only in the fullness of its circumstantiality".¹⁹ The gap between political theory and reality does not even have the excuse of being based on a methodological position, since it often only represents the defence of an inapplicable general formula, and historical theory converts it into antiquarianism and erudition, enabling the past to attract and 'enslave' the present.

The second cause of the uselessness of social science lies in the widespread acceptance among scientists of the criterion of objectivity based on neutrality in values, i.e., the view that science neither can nor should decide which values should guide conduct. But the facts of social science are mostly values, and as a result accepting these facts without subjecting them to rational analysis merely amounts to upholding the *status quo*. "If this is all your objectivity amounts to, then you can keep it, because it seems useless and suspicious to us is the reaction, and indeed the attitude is not always limited to or satisfied with such moderate words."²⁰ Such a criterion

might have been considered acceptable in the historical circumstances which produced it, but has led to suicidal inhibitions; the refusal of scientists to participate in decisions based on values weakens their ability to defend their own right to truth and freedom of research—which is the value that justifies their existence—and leaves the field open for other, less vacillating forces to take the decisions.

The third cause, closely linked to the first, is the 'anarchy of specialization', the marked absence of links among the various social sciences "which sterilizes their results, by not mutually fertilizing them".²¹ It is true that one cannot think without concepts, which are always an abstraction, and that it is impossible to make progress in science without specializing, but it is necessary to seek methods which avoid the 'phantasmal monsters' produced by short-sighted and compartmentalized specialization.

These reasons explain why the social sciences have proved ineffective in dealing with the urgent problems of everyday life, and why there has been a progressive loss of trust in reason. Practical decisions, lacking this guide, have been based on elementary empiricism, routine or improvisation, and the man in the street has often ended up accepting the "miraculous" solutions of 'political miracle workers', and even supporting the well-known aphorism about the revolver and culture.

In the face of a social science which is unreal, fragmentary, neutral and therefore useless, two reactions have occurred, which Medina also firmly rejects. Firstly what he calls 'militant science', which abandons the extreme of abstraction to giving over to that of ideological belligerence. It should not be forgotten that "denying neutrality in values is not equivalent to proclaiming the unrestrained rule of partisan interests, but on the contrary the possibility of finding a limit to it";²² and the limit is that of scientific rationality. Secondly, in the face of the excesses of theory, it is declared that the scientist should dispense with theory and deal only with facts. This 'innocent em-

¹⁸"Responsabilidad de la inteligencia", in the book of the same name, *op. cit.*, p. 17.

¹⁹"Reconstrucción de la ciencia social", in *Responsabilidad de la inteligencia*, *op. cit.*, p. 49.

²⁰*Ibid.*, p. 54.

²¹*Ibid.*, p. 56.

²²*Ibid.*, p. 29.

piricism' piles up data in an unconnected manner without observing that data or facts are not primary components of experience but, inevitably, constructs which derive from hypotheses or theories.

The reconstruction of the social sciences

It is imperative to reconstruct the social sciences, because they must play a fundamental role in the 'cure by reason' of ailing society; and this reconstruction implies, firstly and in a strict sense, their conversion into sciences. They will be genuine sciences when they satisfy two conditions, which are so closely related that they are more like the two sides of a single coin: their results must have been obtained using the 'scientific method', and their practitioners must be guided by a 'scientific attitude'.²³

The scientific method, as a way of gaining knowledge of reality, is not substantially different from the pre-scientific procedures by which man seeks the same end. Knowledge of reality is always a product of the combination of practical action and symbolism, but the former—practical action, 'praxis', in short, the exercise of an activity—precedes the second; in the cognitive construction of reality "a real object is, first and foremost, that which opposes us, in other words which stimulates and resists our activity".²⁴ Practical activity has purposes—aims, intentions—which guide its 'directions' and give rise to a selection of the data which can be sensed; this selection shapes or typifies the reality, highlighting the aspects which have the greatest influence on the activities being carried out. Thus, reality is 'constructed' by praxis as a set of 'shapes' or 'forms'.

Symbols, especially language, not only express feelings and emotions but also make it possible, firstly, to 'socialize' reality, to share it, since "each word includes the symbol of an experience communicated and shared";²⁵ and,

secondly, to order and formulate coherently the reality previously shaped by the praxis. This 'reality' of a practical-symbolic origin is the foundation for any conception of the world, and the basis for scientific knowledge.

It is necessary to underline the relationship between praxis and symbol which Medina sets forth—in which the former precedes and predominates over the latter—in order to dispel the assumption that he shares the empiricist view—still very widespread in the philosophy of science—that it is in the process of acquiring knowledge that man constructs his reality. Practical activity precedes and orients knowledge, and the symbols which knowledge uses—concepts and their relationships—do not derive from the arbitrary interest of the researcher selecting among an amorphous mass of empirical data, but from a reality previously shaped by the praxis.

However, once this fundamental idea has been clarified, it is also necessary to underline that all real flesh-and-blood men meet, in their praxis and their knowledge, an already constructed situation where the 'forms' combine in a very close and only analytically distinguishable way both the praxis which gave rise to the reality and the symbol which denotes it. I believe that Medina would agree that his analysis of the relationship between praxis and symbol has a great formal similarity to that which many economists establish between material and social conditions of production. Analysis of the economic activity carried out by an isolated individual, "Robinson Crusoe", not considered as living in a society serves to show the material basis of the process of production, which, in a subsequent stage of the analysis, is "socialized". However, this analytical recourse should not lead one to forget that in concrete economic activity, the process of production appears from the outset to the real flesh-and-blood man as an almost inseparable union of material and social conditions. The same occurs with the relationship between praxis and symbol; the praxis shapes reality and the symbol reflects this shape, with greater or lesser fidelity, but for the man of flesh and blood, the situation is practical and symbolic from the outset.

It might therefore be said that, for Medina,

²³"En busca de la ciencia del hombre", in *Responsabilidad de la inteligencia*, *op. cit.*, p. 30.

²⁴*Sociología: teoría y técnica*, *op. cit.*, p. 101.

²⁵*Ibid.*, p. 102.

there are various levels of knowledge of reality; a 'pre-symbolic' level, which is that of many non-human living beings; a 'symbolic-common' level, which is that typical of language; and a 'symbolic-scientific' level, which is scientific knowledge proper; in other words, the knowledge which is obtained using the scientific method is only a refinement of the connexion between symbol (concept, hypothesis) and praxis (experiment).

The precedence of praxis over symbol is manifested in scientific knowledge in the fact that the latter is always preceded by a 'problematical situation'. "If there were no problematical social situations, social science would not exist",²⁶ since they serve as a spur to knowledge. The theoretical 'solution' of the problematical situation often requires a process of 'drilling' which enables the analysis to penetrate to ever-deeper layers of reality. Of course, in order to avoid intellectual abstruseness, the theory should also always offer a practical solution to the problem which gave rise to it.

This process of drilling through reality in the search for an explanation capable of providing a practical solution to the problem is not guided by the facts themselves, as the positivists believed, but by a 'provisional key'—an *a priori* hypothesis or prejudice—which acts as a guide to knowledge. In the cross-fertilization between hypothesis and reality ('experience') the theory is originated, but this theory never loses the hypothetical character it had at its origin, however large the number of 'confirmation' of it, because "there is no conclusive experiment, nor can it ever be ruled out that some alterations in it will invalidate totally or ... partially our theoretical construct",²⁷ and it is therefore necessary to resign oneself to the "relative truths of experimental intelligence".²⁸ Problematical situation, hypothesis, relationship between hypothesis and experience, theory, practical solution, hypothetical nature of the theory and attainment of truths which are only provisional: these are some of

the fundamental aspects of the scientific method suggested by Medina.

The scientific attitude of the researcher should consist fundamentally in accepting and practising the norms of the scientific method; it follows from this that the scientist must not be 'free of values' but, on the contrary, should vigorously uphold those which are specific to scientific enterprise. Of these values, Medina emphasizes the importance of two: humble submission to the verdict of experience over and above any personal preference, and acceptance of theories as hypotheses and not as established dogmas, for all knowledge is only relative and provisional.

Medina holds that the social sciences should genuinely transform themselves into sciences, which means accepting and practising the scientific method, and although they should not imitate the natural sciences in everything, they must "apply to the social datum the procedures of conceptual construction used in that science [physics] with evident success".²⁹ The scientific method is the same for all the sciences, whatever their subject, and no special method can be derived for each on the basis of the alleged special character of its subjects.

However, insistence on the 'unity of the scientific method' does not lead him to forget the special difficulties which arise in applying it in the social sciences. On the one hand, the concepts that they use are usually symbols of other symbols, because social phenomena are to a large extent symbolic; on the other, they are usually very similar to the terms of the common language and, moreover, refer to a complex and changing reality which can very rapidly make them obsolete. At all events, although these difficulties can prevent the pure application of the scientific method to the social sciences, they do not make it less necessary that they should be subject to its general principles.

The instrumental character of the social sciences

Science in general stands at the service of man, and must maintain this instrumental character

²⁶ *Ibid.*, p. 126.

²⁷ *Ibid.*, p. 128.

²⁸ "En busca de la ciencia del hombre", in *Responsabilidad de la inteligencia*, op. cit., p. 31.

²⁹ *Sociología: teoría y técnica*, op. cit., p. 126.

by helping him to alleviate his problems. In the case of sociology, however, this requirement is still more imperative, since it is imposed by the very nature of this discipline's subject: the forms of human life. "What is asked of it is an orientation for life. This orientation is, at the same time, a rational clarification of the conditions and trends encompassed by the social circumstances in which our actions occur."³⁰ In other words, the instrumental nature of sociology is defined as the rational clarification of these social circumstances, but what does Medina understand by these terms?

a) *The social circumstances and their various levels of analysis*

Medina expects that social science should guide men not only in a general way, but also in their concrete and everyday reality and, accordingly, that it should help them to understand the specific social situation in which they find themselves and provide a little security for their behaviour in it. This social situation or circumstance appears as a 'concrete whole', which means, firstly, that its parts are inter-related ('whole'), and secondly that it possesses particular features which make it a 'historical individuality' different from those in the past and in the future ('concrete').³¹ For this reason, sociology may be termed a 'concrete science', because it endeavours to understand and explain the 'real structure', the fundamental nature of the concrete social circumstance, its derivation from another structure and its tendencies.

Before sketching some of the methodological problems presented by this concrete nature of sociology, it is necessary to emphasize how much in advance Medina's thinking was. In the same way that, in relation to the scientific method, he was far-sighted enough to incline towards an approach of the "deductive hypothetical" type—which would only become widespread many years later—when the predominant approaches were empiricist or 'comprehensive', his insistence on the con-

crete nature of sociology led him to propose an approach which was to spread in Latin America with great success many years afterwards, under the name of 'historico-structural'. For the last ten years or so this perspective has predominated in social science in Latin America as the principal banner in the methodological struggle against 'structural-functionalism', but no one remembers that Medina proposed it as early as 1940.

It is also evident that the far-sighted nature of Medina's thinking is due in good measure to the positive influence of Max Weber. However, it would be a mistake to think that Medina accepts uncritically and in a wholesale manner all the propositions made by that thinker. It can only be maintained that Medina was a 'Weberian' if that is taken to mean that he adopts Weber as a "referent", in other words as the interlocutor with whom he wishes to discuss all significant problems. This 'debate' produced agreements and disagreements, including among the latter some which are found in the approach which Weber proposes for ascertaining the 'historical individuality' of social circumstances.

Max Weber believed that the natural and social sciences were clearly differentiated by their theoretical intention or aim. The natural sciences, using the principle of causality, attempt to formulate general laws (valid for all times and places) which make it possible to explain the relationship between phenomena and to control or dominate reality. For the natural sciences, individual phenomena are of interest only as 'cases' which belong to general 'classes', and the relationships between them only in so far as they are manifestations of a general law. The social sciences have a different aim, since they attempt to understand and explain historical individualities; they do not aim to formulate general laws, but specific relationships between individual phenomena, and as a result their principle of causality takes the form of a 'concrete imputation'; what is of most interest in their analysis is that which is individual and particular, while that which is general is only a 'means' or a 'preliminary task' for gaining knowledge of society proper. Both use the scientific method, but with a very different approach.

³⁰*Ibid.*, p. 71.

³¹*Ibid.*, p. 74.

Medina fully agrees with Weber that it is necessary to analyse concrete situations in a scientific manner, but he does not accept the sharp distinction that Weber draws between natural and social sciences. In his view, the natural sciences are also interested in individual phenomena and the social sciences in general phenomena, and moreover it does not seem correct to him to agree that some are interested only in 'dominating' reality and others only in understanding it.

With regard to this point there are two interpretations of Medina's thinking. If one accepts the historicist version of M. Weber's viewpoint as presented by Medina in his early writings, there is no doubt that Medina's methodological position falls between the traditions of Weber and Comte. Medina himself gives grounds for this interpretation when he states that between them they drew the picture of the methodological problems of present and future social science.³² If, on the other hand, as seems more correct, Weberian thinking is conceived as a combination fluctuating between the analytical and the concrete approaches, one may conclude that Medina inherited from Weber the problem of the coexistence of these approaches, both necessary but with different methodological requirements.

At all events, by refusing to accept the existence of a sharp division between the approaches of the natural and social sciences, and by underlining the principle of the unity of the scientific method, Medina substantially increases the requirements placed on the social sciences, since these must satisfy both the requirements for the generalization of the scientific method typical of the natural sciences and the requirements for particularization in the concrete analyses called for by the instrumental nature of social science. In other words, they must combine general with circumstantial knowledge.

Medina points out clearly the tension produced by the twofold requirement of grasping the general law and guiding men of flesh and blood in concrete circumstances. In the particular case of sociology, he believes that

the solution consists in developing approaches at various levels of generality, which he calls historical, structural and analytical. Each possesses its own specific concepts and laws, but they must maintain close links in order to cross-fertilize each other. In his later writings there are few specifically historical analyses, and he devotes only one work to presenting the fundamental concepts of the analytical approach, thus clearly indicating that he prefers the structural approach. With regard to this latter approach, he reiterates the need to explore thoroughly the suggestion made by J. S. Mill, and developed by Mannheim, of the 'principia media', i.e., those relationships among phenomena which, though linked to general laws, are specific to a certain level of development or a given historical phase.

At all events, however, the path towards the structural and historical approaches must be opened by the strict and general categories provided by the analytical viewpoint. If it is necessary to choose between them because the instrumental aspiration contradicts the scientific requirements, these latter must be preferred. The concrete or instrumental nature of sociology "indicates only an orientation and a service, since as a science it aspires to theory and is subject to the norms for the construction of science in general".³³

b) *Rational clarification: formal or material?*

The tension between the analytical requirements of the scientific method and the need for the knowledge provided by it to be capable of providing guidance in concrete situations obliges Medina to diversify the approaches of sociology in order to respect both aims and avoid a collision between them or the predominance of one to the detriment of the others. However, the definition of the concept of 'rational clarification' presents him again with the problem of the inconsistency between the scientific and instrumental aims of the social sciences, since they rest on different conceptions of reason.

It has already been said that in those years

³²*Ibid.*, p. 24.

³³*Ibid.*, p. 82.

he placed great trust in the role that science could play in human life, asserting that it is built by means of a 'method' and an 'attitude' based on a conception of reason which he calls 'formal'. The sole aspect of this conception which he rejects time and again is its 'neutrality in terms of values', because that decisively affects the instrumental possibilities of scientific knowledge. What is the purpose of the rational clarification of science if it does not provide guidance concerning what must be done? However, and here is the problem, the establishment of a normative science is based on a conception of reason which is different from, and often opposed to, the formal conception.

In a rather simplistic way it can be said that this is a distinction between material (absolute, total, dialectical, critical, objective, substantial, etc.) reason and formal (relative, partial, instrumental, subjective, etc.) reason.

The conception of material reason holds that it is a "principle inherent in reality" (Horkheimer), and accordingly exists not only in individual consciousness but in the natural and social objective world. The proper use of his rational capacity enables man not only to gain knowledge of the 'genuine being', the 'real nature' of things, but also to obtain the criteria which will enable him to guide his conduct properly. To act in a rational manner means to do so in harmony with that broader order in which man and his purposes are included. This conception originated with the Greeks, who were dazzled by the possibilities offered by the Socratic discovery of the 'concept', was strengthened with the Renaissance discovery of the 'experiment', received the support of the major part of the rationalists and continues to the present day in the widest variety of forms, including those rooted in utilitarianism and Hegelian marxism.

The conception of formal reason also maintains that it can play an important role in human life, although much more limited than that implied by the first conception. Formal reason, conceived as the subjective capacity of the intellect, can help us to dominate the natural and human world, to select in the most appropriate way the means of attaining the ends we have set ourselves, to foresee the conse-

quences of our actions, to clarify what are the values or the conception of the world which guide our actions, but it will never permit us to learn the 'meaning' of the world in which we live, not its genuine nature nor will it be able to indicate to us what we should do. 'Objective' knowledge, the 'absolute' truth, the 'essential' reality, 'correct' values are elusive, timid creatures which can never be completely pinned down by formal reason. Although its background is also longstanding, this school has its theoretical foundation in the illuminists, Hume and Kant and extends as far as to predominate in the present philosophy of science.

It would be a profound mistake to believe that these conceptions of reason are merely responses to philosophical subtleties which could be left aside; on the contrary, they express a problem of considerable political importance, which stands at the focus of all contemporary doctrines and closely links the philosophy of science with political ideals.

It is clear that Medina fluctuates between them because, while the second conception seems to him to be the appropriate foundation of the scientific nature of the social sciences, the first is the appropriate foundation for its instrumental nature. And this latter nature, in the full meaning in which he uses it—of guidance for the proper organization of human affairs, for a reconstruction of human coexistence—cannot be reconciled with a scientific reason which 'abstains' at the level of values, which does not clearly indicate which are the decisions which should be taken, and which can only achieve relative and provisional knowledge.

It has always been evident that the conception of material reason underlying the instrumental character which Medina demands from the social sciences is closely linked to political doctrines which firmly aim both at the upholding and at the transformation of a given *status quo*. The names of Plato, Hegel or Marx are sufficient examples. In these cases, political doctrine demands the legitimacy supplied by the possession of the absolute truth and, if the foundation of this truth is reason, use will be made of a philosophy which ensures that reason provides the means of attaining that

truth, from which is derived not only objective knowledge of reality but also the principles for guiding action. How can one firmly justify doctrinaire principles if one is not certain of possessing the truth? But of course, if the common epistemological derivative of this conception, which believes that it can reach absolute truth, is dogmatism, then its political derivative—or antecedent—is absolutism: if the proper use of reason makes it possible to possess the truth, why should it not be imposed on others, who, guided by their interests or blinded by ignorance, do not wish to see it as it is?

The conception of formal reason is strengthened in the fight against dogmatism, which always lies in ambush for material reason, and offers a path of tolerance and effort to reach a provisional truth by means of experience. Formal reason opposes innate ideas, revelation, self-evident principles, and the predominance of experimental reason. However, this conception has an obvious 'elective affinity' with certain political doctrines, especially some modern varieties of liberalism, which limit the political action which can be carried out to the strict limits of the provisional truth supplied to us by scientific reason. Science can in no case tell us what we should do, since this decision belongs to the specific area of human liberty; it can only indicate to us what we can do. However, this indication is also very limited, because of the provisional and relative nature of the knowledge which scientific reason can provide. If through it it is only possible to attain a very fragile truth, it will never be possible to hold that there is a scientific basis for a political strategy of large-scale transformation. In such circumstances, the rational or scientific management of human affairs should be limited to the application of very restricted social engineering. Years after the first works of Medina, K. Popper highlighted with his political proposals the close relationship which exists between an epistemological conception based on formal reason and moderate political doctrines. This conception represents an effort to limit the harmful political effects of the excesses of material reason—whose supreme example is 'terror'—and to legitimate scientifically a latitude for action which is important for human liberty,

but rapidly slips towards the implicit defence of the *status quo*.

Both conceptions of reason have their virtues and defects when they are conceived as cognitive and political principles. Formal reason is a dissolvent of all kinds of dogmatism, at the same time as it helps man to reach his goals, but on the plane of values and of ethical and political decisions it forbears, giving precedence to the free expression of will. This 'neutrality in values', which for its adherents is a guarantee of freedom, is for its critics its fundamental defect, since it implies retreating before the decisive problem of the choice of ends and leaving the way clear not for liberty but for irrationalism or technocratism. Whoever, like Medina, has watched the spectacle of groups and classes destroying each other because of their incapacity to reach agreement on the ends to be pursued—as in the case of the Weimar Republic and in that of Spain at the time of the civil war, to cite only two examples which weighed heavily on him—or the sight of intellectuals refraining from offering solutions, protected by the neutrality in values of formal reason, can have no doubts about the danger of conceiving it to be the only type of reason possible. When the free expression of individual interests leads to social harmony, in accordance with the beliefs of the original economic liberalism, all that is needed is formal reason to enable men to attain as efficiently as possible the ends which they have freely proposed; but when the conflict of individual and social interests leads not to harmony but to chaos and anarchy, formal reason shows that it is not the appropriate instrument for overcoming the crisis of the liberal democratic régimes.

Again and again, in various forms, the conception of material reason recurs in western thought to fill the tremendous void left by formal reason. Its greatest promise lies in bridging that gap satisfactorily, but its critics do not fail to point out that always inherent in it is the very danger which it was the function of formal reason to avert: material reason might mask behind an appearance of rational or scientific knowledge what is in fact the product of mere irrational and interested decisions. The history of the past and present forms of totali-

tarianism, with their pseudo-scientific doctrine in which they seek justification, is the supreme endorsement of an attitude of the utmost caution to the spread of material reason.

In his first period, Medina sets out the differences between the scientific and instrumental requirements, but does not succeed in combining them satisfactorily. When it was pointed out to him —by José Gaos, for example— that the predominance of rationalist determinism would lead to automatism and the suppression of freedom, he took refuge in formal reason and replied that "...since the exhaustion of the scientific fetishism of the nineteenth century, present-day science offers no grounds for maintaining pretensions to absolute knowledge ... Science was the first to be converted to historical reason; but it saves its relativity in the test of experience".³⁴ There is no reason to fear that knowledge of the social sciences will threaten freedom, since 'it is not thus that God punishes us'; the problems do not derive from the scientific nature of the social sciences, but from the absence of such a nature. Ideally, science should offer us the solution to our problems, since "rationalism and humanism are so intimately united that science would lose its *raison d'être* if it abandoned all hope of one day rationally governing our social life. However, in its present state sociology cannot completely fulfil this assignment, and we must content ourselves largely with demanding from it and the social sciences the fullest possible rational analysis of the conditions of our action".³⁵

However, these favourable assertions *vis-à-vis* formal reason do not leave him satisfied either, and consequently Medina returns to them repeatedly in his later writings and reformulates his considerations concerning the problems of reason on the basis of a clear distinction between formal and material rationality. He concedes that, in a strict sense, and in accordance with the prevailing philosophy of science, scientific reason is only formal rationality, and accordingly the moment of the decision which involves values —the choice

of what must be done— remains outside the sphere of science. Nevertheless, it is not beyond the limits of reason, since it is susceptible or rational interpretation by material reason. Paraphrasing the aged Mill, M. Weber said that when emerging from pure empiricism one falls into the polytheism of values, and a struggle among the gods is then inevitable; but Medina becomes progressively convinced that the only way of avoiding this struggle is the proper use of material rationality.

In accepting that 'values' and 'meanings' are susceptible of material rational analysis —if not, how could one determine which problems are socially important and which are not?— Medina moves away from the neo-positivist positions he held in his early writings and moves closer to the 'critical philosophy' of the Frankfurt school. To grasp the meaning or value of a social action is not the same as agreeing with the manifest meaning expressed by the actor, nor agreeing to place this action in the manifest social whole of which it is part. Rather, it is necessary to use the critical battering ram of material reason to penetrate through the layer of rationalizations and ideologies until one reaches the profound meaning which guides the social action. Material reason and critical reason appear in Medina's mature thinking; here he not only continues to recognize the achievements of formal rationality, but also acknowledges its limits and above all the danger that formal rationality, after the fact has been separated from the value, the theory from the decision, and after the choice between values has been placed in the sphere of irrationality, may occupy with its own peculiar values —especially that of 'effectiveness'— the gap left by material rationality. Already, in 1969, he points to the danger of the destruction of any form of reason when "it goes beyond the field of its effective potentiality",³⁶ and in his last essay he reiterates that the "revitalization of democracy" depends to a large extent on a will "to transcend instrumental rationalism and once again found the legitimacy of democratic rule on the supreme values of a form of human

³⁴"En busca de la ciencia del hombre", in *Responsabilidad de la inteligencia*, *op. cit.*, p. 31.

³⁵*Sociología: teoría y técnica*, *op. cit.*, p. 74.

³⁶"La planeación en las formas de la racionalidad", in *Sociología: teoría y técnica*, *op. cit.*, p. 100.

society which has a real significance for man and his community”³⁷

In short, as regards the possibility of a ‘rational policy’ it is clear that Medina always sought, through all the forms of rationality, the most appropriate means of rationally guiding conduct. At the outset he placed his trust in the rationality of science; later, when he recognized the limits of that type of rationality —its inevitable ‘neutrality in value’— and the dangers of its excesses, he endeavoured to integrate it with material rationality, in order to find a setting which afforded scope for rational discussion and agreement, not only on the formal relation of means with ends, but on the ends themselves. However, when he turned

to material reason and the analysis of the social conditions in which it can exist and develop, he knew that he had come to the very heart of his own cognitive and political utopia. The rational conduct of human affairs is possible by means of formal and material rationality —in other words, rational decisions can be reached on the technical and political levels— but it is indispensable to create such social conditions as will permit the deployment of both rationalities. In the absence of these conditions, and despite all Medina’s efforts and hopes, there will be ‘no ebbing of the towering wave of irrationality that is engulfing us’, since the destiny of democracy is one with the destiny of reason.

II

In search of the object of sociology

Even a superficial reading of Medina’s initial works clearly indicates that they are devoted to justifying and firmly defending the scientific nature of sociology and clarifying its object of analysis. Unfortunately, this is not a discipline which has an object and a method which are consolidated and accepted, but one full of academic and ideological conflicts.

For this reason his task consists not in moving forward easily along the path built by his predecessors, but in overcoming with difficulty a dense theoretical and methodological tangle in order to establish firmly the essential foundations for the development of a rigorous social science: the appropriate use of the scientific method and the precise delimitation of its object. Without doubt it would have been easier for him to accept from the outset some particular theoretical position, without asking it or himself bothersome questions concerning the philosophical assumptions on which it was based; but such super-

ficiality was not compatible with Medina’s temperament, nor with the principles which, in his view, define the task of an intellectual. He had to select the most correct ‘solution’ only after a thorough exploration of all the options open to him; each of them had to be analysed and evaluated in order to grasp and retain its positive aspects. This process of analysis and evaluation obliges him to go deeply into philosophical labyrinths from which it is difficult for him to emerge unscathed, as has already been pointed out in the previous chapter devoted to outlining the foundations on the basis of which Medina affirms the scientific nature of sociology.

The task is difficult both for him and for anyone who proposes to follow the evolution of his thinking closely and in detail, since in this explanatory process it is possible to lose one’s bearings, devote part of the time to penetrating along paths which turn out to be dead ends, or to allow oneself to be guided by brilliant lights which prove to be mere will o’ the wisps. All this happens to Medina while he is seeking the object of the social sciences, and since this search is reflected in his writings, they can prove tiresome for anyone who

³⁷“Notes on the future of the Western democracies”, *CEPAL Review*, N.º 4 (second half of 1977), p. 134 (United Nations publication, Sales N.º: E.77.II.G.5).

is not determined to travel together with the author along the winding road. Furthermore, since he is subject to various influences, and his intellectual honesty and scientific zeal always prompt him to set out all those which he deems important, some of his texts can give the less alert reader an impression of tiresome erudition.

After analysing the problems relating to the scientific nature of sociology set out above, Medina devotes the first stage to clarifying the scope of the social sciences and precisely outlining the sociological perspective. He begins this work in a systematic way in the mid-1930s —his first sociological work had already been written by 1936— continues moulding his ideas through books and articles during his stay in Mexico, and shapes them finally —as far as this subject is concerned— towards the end of the 1940s in his *Lecciones de sociología* (Lectures in sociology) given at the University of Puerto Rico, of which only an incomplete typed version exists.

It has already been mentioned that because of his character, open to any useful contribution, he is subject to many influences from different ideological or academic backgrounds. It seems clear that even in the initial years he is influenced by some authors from Germany (M. Weber, K. Mannheim, H. Freyer), France (A. Comte and E. Durkheim), England (H. Spencer and M. Ginsberg) and North America (J. Dewey, F. Znaniecki and T. Parsons). His mature version of the sociological perspective basically consists of a combination of various European schools of thought, especially the Weberian school, with contributions from the North American school, the latter no doubt analysed in detail during his stay in Puerto Rico between 1946 and 1952. As is well known, this theoretical combination has not been attempted only by Medina, since various thinkers, each in his own way, have endeavoured to follow the same path, among the most outstanding examples in the United States being T. Parsons, C. W. Mills and R. Bendix. Parsons' influence on Medina is obvious —at least in the 1950s— but as far as the others are concerned, there seems to have been, rather than a direct influence, the affinity typical of the members of a single school of thought.

Social facts: action and situation

1. A clear idea can be gained of Medina's conception of the object of the social sciences if his basic assumption is followed through from the beginning: just as all the social sciences make use of the scientific method, they also share a single object —'social reality', 'social facts'— although they differ in the type of social facts with which they deal and/or the perspective from which they study them.

But what does he mean by social reality, social facts? Basically these are human activities, actions, behaviour, by men who act in various ways; in short, a "fabric of human acts with their antecedents and results".³⁸ These human acts, therefore, do not occur in a vacuum but have as a framework and influence 'antecedents' of various kinds and, in addition, generate as a product of their own development 'results' which can be transformed into the conditions for new actions. However, in his first writings he emphasizes that the nucleus of social reality, human action, must be distinguished from its antecedents and its results, and firmly rejects all conceptions which claim to 'reduce' such action to the latter.

'Naturalist reduction' asserts that social facts are natural phenomena which can be grasped with the conceptual instruments of natural science and, therefore, that the social sciences are natural sciences. This conception has a number of variants depending on the natural phenomenon in which it is sought to blend the social fact; the most widespread include those where human behaviour is a manifestation of the organic constitution of man, an expression of instincts or tendencies which constitute his dynamic principles; and those which consider it to be a consequence of the natural or physical environment.

The 'culturalist reduction' regards the social fact as 'cultural' or 'spiritual', as a manifestation of culture or of the spirit. This conception also has a number of variants —historicism, Hegelianism, phenomenology, and so on— which postulate the existence of totalities of meaning, manifestations of the objective spirit or spiritual essences such as

³⁸*Sociología: teoría y técnica*, op. cit., p. 56.

art, law or morals, and *imagine them as abstract, closed and independent entities.*

Medina rejects both reductions. It is undeniable that human beings are one with their 'animality' and for that reason are subject to tendencies similar to those of other species, but human action includes something more than the natural conditions in which it is carried out. It is also true that man is imbued with or influenced by culture, and that the expressions of culture can be 'grasped' from the society in which they arose and can be conceived as more or less consistent, ordered and independent wholes. However, here too it should not be forgotten that they are human products and that what is important for the social sciences is not these cultural entities in themselves, but the activities by means of which they recreate and actualize themselves, taking form in human behaviour. The 'culturalist reduction' tends to "cut off culture from its vital roots, then bring man face to face with it and finally, very often, attribute to any one of the cultural products a decisive power over man himself".³⁹

It is true that natural and cultural elements are so interlinked that it is often possible only to differentiate them analytically; the origins of many cultural expressions can be traced to their natural basis, while many manifestations of internal and external nature are mere by-products of culture. But human activity cannot be reduced to either, or to any combination of the two. The irreducible nucleus of action by man is the action itself—with its content of intention, purpose, aim, meaning—and those antecedents and results are only stimuli, means, obstacles to it.

Time and again Medina reiterates that to a large extent man—conceived generically as a species—creates himself by constructing through his activities the circumstances which influence his behaviour. Accordingly the approach of the social sciences should analyse how natural and cultural conditions mould human behaviour, and also how man uses these conditions—within the framework of his specific society—to achieve the aims he has

set himself or chosen, since it is through this choice that he can express his relative freedom from these conditions.

Human activity is included in physical and biological nature but transcends it because of its 'meaning', whose importance is not perceived by naturalism. Culturalism, for its part, crystallizes, 'substantializes' this meaning, without pointing out that social reality is activity and not crystallized culture. Nature and culture are components of human activity, but the nucleus of the latter cannot be understood through the separate consideration of its components, nor through the exclusive analysis of its products or results.

The conception formulated by Medina in his first sociological writings on social facts is clarified when it is compared with those of M. Weber and E. Durkheim. The former holds that the specific object of analysis in sociology—in sociology alone, and not in the other social sciences—is 'social action'. Taking the total set of human actions he establishes a distinction between actions with meaning and behaviour which represents a mere reaction. Actions with meaning are those to which the actors carrying them out give an orientation in accordance with certain criteria or principles (which are not necessarily nor usually ethical), while reactions are mere responses, largely automatic, to internal or external, natural or cultural stimuli. Among actions with meaning he distinguishes social action, which are those where the meaning granted to them by the actor relates to, or takes into account, the actions of others. In other words, a social action is not a mere reaction to internal or external stimuli, but has an orientation, a meaning, which takes into account the actions of others.

Medina agrees with Weber that actions with social meaning—i.e., those related to the behaviour of others—are the nucleus of sociology (and, in his view, the other social sciences), but does not follow him in the sharp distinction he proposes between actions with meaning and reactive behaviour, or, as a result, in a sociology which leaves aside consideration of the natural conditions of human action. In other words, while he does not agree that human action should be reduced to its natural basis, nor does he feel that it is desirable that

³⁹*Ibid.*, p. 6.

the latter should disappear from the analytical perspective of sociology.

According to Durkheim, in all spheres of human activity there are 'social facts' which are the subject of sociology—customs, practices, habits, conventions, legal norms, ways of acting, thinking and feeling, and so on—and which are objective in nature, that is to say, exist independently of the individual and, to a large extent, are imposed on him. These social facts possess an 'objective', 'real' nature; they have been created by man but have become independent of him and assumed their own existence. To man they appear as 'objects', with their particular nature, their internal logic and their imperative character, especially when they have reached a high level of consolidation, as occurs with language or legal norms. They are not 'material' facts like natural facts, but they are just as real; and they are not human action, although they manifest themselves through it.

Where Medina differs from Durkheim is clear: for the latter social facts are the consolidated 'institutions' in which human activity takes place, while for Medina they are human action itself, the actualization of those institutions.

2. As early as in his first book, when trying to encompass in a single term the particular features of social facts—and especially how they differ from natural and cultural facts—Medina terms them 'forms of life'.⁴⁰ The echoes of E. Spranger in this term do not appear to be accidental, since that author also seeks to establish a degree of order in the multiplicity of individual forms of behaviour through the construction of ideal types of 'men'—theoretical, economic, political and so on—which characterize their conduct through the predominance of one given orientation of meaning and value.

Medina indicates some characteristic features of these 'forms of life', which differentiate them from natural and cultural facts. It is true that they are less consistent than the latter, but they have a characteristic internal

nature. Natural and cultural objects are 'external' to human beings, but social facts are "specific modes adopted by existence in realizing itself", and they cover all human life because "they would have no existence without us and we would have no reality without them". We cannot stand outside them and observe them as if we were observing a storm or a picture, and for that reason they form a 'vital reality' which is the object of 'continuous human execution'; their destiny is linked to the destiny of men, and "The forms [human activity] takes are forms or modes of human life itself".⁴¹

However, it should be mentioned that his formulation of social facts varies over the years; this is not surprising, since he analyses this subject in writings ranging from 1936 to 1955. The formulation outlined above corresponds to that of the first works, between 1936 and 1941, and there one can clearly see his eagerness to prevent the social sciences from being devoured by some of the naturalist or culturalist 'reductionisms' so prevalent at that time. Although he indicates the important influence of natural and cultural 'conditions' on social action, the impression sometimes remains that he focuses less interest on them because he highlights the specifically social component, human behaviour, always in action, *in fieri*.

In subsequent writings he continues to affirm the creative and innovative persistence of human activity, but devotes much more space to the conditions which guide it and restrict it, and also makes much more frequent mention of Durkheim and his insistence on the imperative nature of these conditions. For example, in his *Lecciones de sociología* of 1948 (p. 36 *et seq.*) he reformulates the conditions of human activity with his concepts of mentefacts, artefacts and sociofacts.⁴²

⁴¹*Sociología: teoría y técnica*, *op. cit.*, p. 59.

⁴²Mentefacts are the products of thought, especially ideas, which appear in the form of objectified and instrumental symbols; artefacts consist of anything which man has made with his hands, from the simplest tools to the most complicated machines; and sociofacts are the "constructions of social coexistence", everything which constrains behaviour, from the most elementary customs to the most complex institutions. They are all creations of man which

⁴⁰*Panorama de la sociología contemporánea* (La Casa de España en México, Mexico City, Fondo de Cultura Económica, 1940), p. 208 *et seq.*

Even in that text, and more clearly in another written in 1955⁴³ he modifies the meaning of his concept of 'forms of life' to include not only human action but also the conditions in which it is carried out. These cultural, material and social conditions are the components of the forms of life which shape human conduct by their compulsory nature. In addition, there are forms of life which are total—those which are specific to the various types of civilizations—and partial, which correspond in particular to the various social institutions and roles prevailing in a given society; analysis of the latter was later to constitute one of the favourite subjects of analysis in his sociology of development.

At all events, whatever emphasis Medina deemed it advisable to place on analysis of the conditions at various stages in the evolution of his thinking, there is no doubt that he always regarded action, 'social behaviour', as the central nucleus of the object of the social sciences.⁴⁴

3. 'Social facts' are never finally facts but have to generate themselves every day in the repeated acts which give them reality. But this does not prevent them from occurring in a relatively ordered form; on the contrary, they present 'forms' whose consistency derives from the various meanings of the action. If the nucleus of social facts is made of activities with meaning, the various meanings of the

action are also the criteria on the basis of which the various types of social facts, the different forms of life, are differentiated.

Medina distinguishes two aspects in the orientation or meaning of actions, which constitute an essential foundation for his conception of the object of the social sciences. The various types of action can be differentiated according to their content or purpose—for example, economic, political, religious, military, and so on—and by the mode or form in which they are carried out (for example, rational, traditional, affective, and so on). Medina finds in the first of these criteria the key which enables him to distinguish the various spheres of ordered human activity.

In other words, the individual social sciences concentrate on the study of special types of social action differentiated by their aim or content. Economics analyses those activities of man which are aimed at satisfying his material needs; political science those which are aimed at meeting requirements in organization and control; and similarly for the other individual disciplines which "set out a list of issues focused around a particular type of human action".⁴⁵

Analytical sociology and concrete sociology

1. But what is the specific object of sociology?

This question is usually given three typical answers which are not necessarily mutually exclusive: firstly, sociology might attempt to define its object by delimiting a range of activities characterized by their 'social' purpose, in contrast to those which have economic, political or other purposes; secondly, it might focus on the study of a formal aspect or dimension present in all human activities, whatever their purpose; or, finally, it might claim that its object is the overall social structure involving the partial spheres to which all the individual social disciplines relate.

Medina rejects the first answer and, following Mannheim, holds that sociology constitutes its object on the basis of the perspectives implied in the two remaining replies;

exert a wide, changing and omnipresent influence on his behaviour.

⁴³"Tres aspectos sociológicos del desarrollo económico" (1955), in *Aspectos sociales del desarrollo económico* (Santiago, Ed. Andrés Bello, 1955), p. 82 *et seq.*

⁴⁴In his *Lecciones* he once again emphasizes this subject with particular brilliance: "...from the perspective of life in general man appears to us as a being in a situation. And from this situation, for which in principle he is not responsible, he can only escape in order to fall into another". But this situation "is in addition something open and unfinished, movement within the movement, the present moment of the history which we represent. Thus we make our history within the history which has made us... Within the limits of this fate, within the framework of this situation, however, operates the freedom which makes us what we are and shapes and modifies the situation itself. It is a creative liberty, it makes our personality, society, history; but it is not an unlimited and omnipotent freedom, for it can never go beyond its situation". *Lecciones de sociología*, (mimeographed version of his lectures at the University of Puerto Rico, 1948?), pp. 189-190.

⁴⁵*Sociología: teoría y técnica*, *op. cit.*, p. 92.

in other words, it is at once 'analytical' and 'concrete'.

However, these concepts require clarification. Taking one step beyond what has already been said in the previous chapter, and interpreting to some extent Medina's implicit thinking, we may assert that these concepts are located in an area crossed by two fundamental dimensions. On the one hand, the approaches vary with the level of abstraction (or concreteness) used: there are approaches, concepts and theories which are 'general' in that they refer to phenomena characteristic of any human society; 'typological' in that they endeavour to grasp social facts which are specific to certain types of society, such as, for example, the peripheral capitalist societies; or 'individual' in that they are interested in phenomena belonging to a given society. On the other hand, the approaches also vary with the unit of analysis regarded as appropriate: in this case they range over the broad area extending from 'micro-social' analysis of social actions and relations at the interpersonal level to the 'macro-social' study of broader formations—groups, institutions and their relationships—at the structural level. Medina makes many of his methodological considerations by taking as a reference the extremes of this combined classification: the general and interpersonal approach, which he usually simply calls analytical, and the historical and structural approach, which he usually terms concrete.

Analytical sociology has a twofold attraction for Medina: its constituent elements are a necessary condition for any theoretical formulation, so that the effort devoted to them is never wasted, and, moreover, how elegant their conceptual constructions are!

When in *Panorama de la sociología contemporánea* (p. 203 *et seq.*) he reviews the analytical perspective, he does so on the basis of the thinking of G. Simmel, one of the most energetic builders of this theoretical path. Simmel reacts against the encyclopaedist tendencies of many classics in the discipline, defines social facts in a 'special' and not 'total' way, and opposes the theory of socialization to the theory of society. He does not try to find a new object for sociology, but sets out the

sociological perspective on the basis of which it is possible to analyse the objects already investigated by the other social disciplines. He believes that he can find this perspective on the already outlined separation between the 'content' or purpose of the action and the 'form' or mode in which it is carried out; sociology should study the forms assumed by human action, whatever their content — in short, devote itself to analysis of the 'forms of socialization'.

Subsequently, in *Sociología: teoría y técnica*, Medina returns to the subject when assessing the contribution of F. Znaniecki. This author maintains that, while each of the individual social disciplines has its own sphere, there exist similarities of structure between them which derive from the fact that all study human action, and, for that reason, a discipline is needed which formulates a general theory of action. For his part, Medina emphasizes: "...beforehand, and as a foundation for the detailed research undertaken by the individual social sciences on the various classes of action, it is possible and necessary for someone to study social action in itself and construct its theory",⁴⁶ and this someone is the analytical sociologist. All the individual social sciences formulate their theories on the basis of assumptions relating to human action—thus they postulate the existence of 'economic man', 'political man', and so on—which may not be valid or acceptable, and must therefore be analysed by this general theory of action or analytical sociology.

In Medina's view, this sociological perspective offers an important point of departure for understanding of the social world, but does not exhaust the role that sociology can play, since it is not capable of overcoming all the shortcomings of the partial viewpoints of the individual social sciences. These sciences "work with their backs turned to the situation as a whole, on the basis of artificial constructions imposed by their fragmentary point of view".⁴⁷ The 'special' actions which they study imply abstractions in a dual sense; on the one

⁴⁶*Ibid.*, p. 93.

⁴⁷*Ibid.*, p. 96.

hand, there is a single answer of the actions who, although he pursues different purposes, is an indivisible 'person'; on the other, whatever the special purpose of the action, the overall structure in which it is carried out has a decisive influence on it. For this reason, in order to understand a social action it is necessary to know the relationship it has with other actions and with the whole —person, institution, group and social structure— within which it is included. A discipline is required, therefore, which succeeds in achieving a perspective of the whole, which studies society as a whole, and which does not claim to expel or replace the other social sciences, but makes use of them: *this* is concrete sociology.

To use the terminology which Albert O. Hirschman popularized with another theoretical aim in view, the sociological perspectives which Medina suggests have 'forward' and 'backward' linkages with the other social sciences, since on the basis of the materials which the latter provide, they help then to revise their assumptions and achieve a synthesis of their findings. The sociological view is always a cross-section, since it penetrates through the other social sciences and brings them lines of contact at the base and the peak of their theoretical constructs.

Sociology needs both the analytical and the concrete perspective, but the latter is 'its only *raison d'être*'. Medina underlines that this concreteness was imposed on sociology at its origins by Comte. For Comte social reality is a whole —a set of interdependent parts which cannot be understood in isolation, but only in the totality of their mutual relations— that has a historical nature which must be respected in the theoretical perspective with which it is tackled.

2. In the *Lecciones de sociología* he prepared in Puerto Rico, Medina presents his analytical sociological theory, made up of a set of general and systematic concepts.

After his long preoccupation with social action it does not seem strange that he should construct his analytical sociology on the basis of it, since he regards it as the "irreducible unit" of social reality. As a result, on the basis of social action and following the main thrust of the Weberian orientation, Medina puts in

place the fundamental parts of a theoretical edifice the culmination of which highlights the concept of social structure. In this way, between the tiny individual social action and the overall structure of society are found all the concepts which, intertwined, make up his analytical sociology.

Nevertheless, it could be argued with justification that he might well have chosen the reverse route, and begun his analysis on the basis of the concept of social structure, so as to highlight conceptually the predominance of structural over analytical sociology. However, either from pedagogical necessity, or because he wished to follow the example of his teachers M. Weber and G. Simmel, or because he was dazzled by the architectural elegance of his constructs, he did not begin with the whole, but with the most elementary unit and, furthermore, spent much time on analyses which are very suggestive, but also rather formal and abstract, in the best style of the second of the teachers mentioned.

At all events, compared with previous examples his exposition is more rigorous and systematic, and it is possible to draw from it, without major difficulties, the fundamental concepts with which he formulates his sociological theory and whose understanding is undoubtedly indispensable in order to tackle his sociology of development.

After defining *social action*, like Weber, as that action whose meaning is related to the action of others, he distinguishes within it two basic components: the *actor* or person who carries out the action, and the *social situation* in which it is carried out.

There are only two types of actors or units of action, *individuals* and *groups*. Individuals are by their very nature subjects of action, since they alone possess corporeal reality, awareness and will, but groups also have a specific reality, which can be grasped empirically. This reality of the groups derives from the fact that they are collective units of action which carry out in an articulated, organized manner activities that cannot be carried out by individual action.

The actions carried out by these individual and collective units are usually not chaotic and disordered but, on the contrary, are characterized by their uniform and continuous repeti-

tion over time. This characteristic of social actions derives from the circumstance that the actors conform to a greater or lesser extent to behaviour patterns which they find already formed in their society. In his social situation the actor encounters *normative orientations* which indicate to him both what he should do (purpose of the action) and how he should do it (technical orientation of the action); *conformity* expresses acceptance of and compliance with the normative orientations of the social 'models' of action, and is in turn the basis for the *social cohesion* which is manifested in the fact that all actors share in the common meanings, ends and values, and in the force of the links which unite them.

The fact of conformity is central in the sociological perspective, since it is the principal link between the actor and his situation, and its influence is so profound that not only is man moulded by society, but in most cases freely accepts such moulding.

The conformity of the actors with their normative orientations is produced by two fundamental factors. Firstly, by *social pressure*, which like atmospheric pressure is imperceptible, widespread, constant; its contribution is culture, and its constituent elements the *mentefacts*, *artefacts* and *sociofacts* already mentioned. Secondly, by *social control*, which is perceptible, specific, deliberate; it requires organs and instruments for its application, and its support is power.

The normative orientations which mould the activity of the individual and collective units of action together form a sort of *overall normative order*, but are also, at a more limited level, grouped into two 'units for normative co-ordination of action': the *roles* and *institutions* which give the normative orientations a specific shape.

The roles are sets of normative orientations which refer to a social activity or position and therefore determine a given series of rights and obligations. The institutions are units of co-ordination which shape large areas of activity; they are not units of action, as is sometimes thought, but the units of action act within their framework, in conformity with their 'institutional patterns' (economic, political, educational, and so on). The concept of a

role is of central importance in this perspective, because not only are the institutions sets of organized roles for the achievement of a given collective purpose, but in addition these constitute the basis of the notion of a *person*, i.e., the individual conceived as the support for a set of social roles.

So far all the concepts highlight the influence of the normative orientations on behaviour; Medina holds that this is the typical sociological perspective, theoretically very fruitful but also very incomplete. Of central importance for his perspective is the idea that social phenomena are strained by opposing trends, are subject to 'polarities' which cannot be resolved dialectically but may at best reach a balance among themselves. It is the already mentioned interaction between action and situation. Both trends are always necessary; without conformity societies dissolve, but without nonconformity there is no development or creation. The same occurs with the tendencies present in any individual: the 'moulded ego' adapts and conforms to the prevailing order and is a reflection of its situation, while the 'innermost ego' rebels, innovates, creates. On the level of the relationship between units of action and co-ordination, therefore, there exists a dual trend towards conformity and rebellion which is one of the nuclei of Medina's theory.

He adopts a similar position when he analyses some of the basic social relations between the actors. As a backdrop to all the most concrete social relations and an irreducible component of any form of coexistence stand *concord* and *discord*, which emerge as an expression of the human passions and demand the formulation of a sociology of affective life. At a more concrete level he sketches, in often brilliant pages, some oppositions which are manifested in classical social relations: *contact* and *isolation*, *competition* and *co-operation*, *authority* and *obedience*, differences between types of *status* and *between the social strata*.

These social relations represent the social fabric, the threads with which men weave and unravel it, because the 'brilliant tapestry' of the historical process always shows on its reverse side the humble and patient fabric of

everyday actions, and they may be viewed from a dual perspective: as 'processes' which unfold over time, or as 'structures' which are the consolidated result of this unfolding at a given moment.

It has already been said that Medina, for various reasons, notably the attraction exerted by the elegance of strict concept and architecture—as happens to many economists with neo-classical thinking—analyses and appraises the contribution of the interactionist school which concentrates on the analysis of social relations at the interpersonal level. But he points out that sociological theory cannot stop there and must turn to the study of the collective units of action and the institutions, for only through them can the *social structure* be observed. On the one hand, he asserts that the "physiognomy of a given society depends on the character of its predominant, axial groups";⁴⁸ the internal organization of these groups—their values, norms, means, distribution of functions and roles—and their relationships are an essential component of the social structure. On the other, the institutions constitute the broader 'structural setting' of any society. It is true that this institutional perspective should be used with caution, since it can lead to a very general and abstract approach or to a mistaken reification of the institutions—problems which functionalism has often not been able to overcome—but it also possesses major virtues because of its structural nature.

In his subsequent studies on the sociology of development Medina was to examine more thoroughly both the groups and the social roles specific to the economic institutions and, in particular, was to explore the relations between the economic institutions and political and educational institutions.

Finally, there is a last aspect of his analytic sociology which should be highlighted because of its influence on his sociology of development. It has already been mentioned that, for him, social actions usually include a dual orientation concerning both the purpose of the action and the way in which it is carried

out. In this latter orientation one may distinguish some classical types, such as rational action and traditional action, which can be the foundation for different types of conformity and therefore of different types of cohesion and social structure.

When instrumental rational action predominates, where appropriate, means are applied to achieve a previously chosen end in the most efficient way, this gives rise to cohesion based on consensual agreement, on the interrelationship of interests, which generates a social structure made up of a fabric of instrumental actions where the segmentary interests of its members are grouped and related.

When traditional action predominates an activity is reproduced without selection of means or ends, which does not seek to gain a benefit or satisfy an interest but merely to 'repeat a custom' or 'maintain a tradition'. Traditional cohesion is based on custom, solidarity and emotion, and the predominant relationships in the social structure are of the *gemeinschaft* type.

Concerning these types of articulation of human activities—which range from the interpersonal social relationship to the overall structure of society—two approaches have arisen, both of singular importance in the sociology of development. On the one hand, there is a formal and unhistorical approach which analyses the nature of any social fact on the basis of these types and, on the other, a historical approach which conceives the two types as successive phases in a transition from the '*gemeinschaft*' to the '*gesellschaft*' society or, as Medina was to put it later, from the traditional to the industrial structure.

3. In his *Lecciones de sociología* Medina accordingly constructs the complex analytical edifice which is founded on social action and culminates in the social structure. This sociological approach is an indispensable means of studying any society, since it provides the 'framework of concepts' which makes it possible to 'grasp reality'. "For while the concepts are never the reality—which goes far beyond them in its richness—reality would escape us if we did not possess them."⁴⁹

⁴⁸*Lecciones de sociología*, typed version referred to above, p. 134.

⁴⁹"Proyecto de un curso", in *Presentaciones y Plan-*

Nevertheless, it is worth repeating that, in Medina's view, the analytical perspective is insufficient to satisfy the aspiration of sociology, even when the preeminence of the structural approach over the interpersonal approach is emphasized. Sociology has the duty of providing guidance for human action, and for that purpose it must be not only structural but also concrete, historical. The general concepts of analytical sociology must be the foundation for the typological and individual concepts of concrete sociology, since the former, left to their own devices, are empty and formal, mere elements in an abstract sociology which is no use in providing guidance.

It has already been mentioned that the typed version of Medina's *Lecciones* includes only his analytical sociology, and even then incompletely, but in his inaugural exposition in the general social science course in Puerto Rico—which appears in “Proyecto de un curso”—he clearly outlines the general framework within which it falls, the purpose which guides it and the various parts which go to make it up. The basic purpose is to encourage the students to be aware of the world in which they live, to understand the reality which surrounds them and the causes of it, and to make this awareness the point of departure for the development of their personalities.

In order to achieve this aim he divides the general social science course into three parts.

The first is devoted to analytical sociology, as has already been outlined, which in this case he calls ‘theory of society’. In the second part he sketches the type of historical society ‘in which we are immersed’ and which he calls ‘liberal society’. In this outline he presents “what has been and remains that organization, that way of seeing and living life, ...how such a type of society arose and what has been its growth, what thinking shaped it or expresses it, how and in what form it then enters into the situation of change in which it now appears to be”.⁵⁰ In the third part, “contemporary society”, he analyses “the social forms which are our personal experience”, thoroughly examines the “crisis of our time”, highlights the most important current changes in the political, economic, educational and international fields, and explores the probable trends in their orientation.

Here the sociology proposed by Medina and the meaning and function of its different parts are outlined clearly. The analytical approach, with its vigour and architectural elegance, is the appropriate instrument to analyse the general social phenomena and constitutes the point of entry to concrete sociology which transforms the concepts of the former in order to bring them closer to reality and permit historical understanding of the origins, present status and trends of current societies, which make up the “social situation” of modern man.

III

The foundations of the sociology of development

Medina's writings can be divided into two stages, the dividing point between them being his joining CEPAL at the beginning of the 1950s. In the first stage, set out in the previous chapters, he outlines the perspective of sociology and established it as a rigorous science; in the second he lays down the foundations of

the sociology of development and analyses some of its fundamental themes.

It is necessary to ask whether Medina is brought to the sociology of development as a consequence of the spontaneous evolution of his thinking—and regards CEPAL as a favourable environment to develop it in—or whether, in contrast, his joining CEPAL, prompted by

teos. Papeles de Sociología (Mexico City, Instituto de Investigaciones Sociales de la Universidad Nacional, 1953), p. 224.

⁵⁰*Ibid.*, p. 225.

other reasons, is a fact which influences and guides his intellectual activity towards the sociological problems of development. It is very likely that Medina thought CEPAL could offer him a safe haven, a legal and economic umbrella which would free him and his family from the sometimes very abrupt changes in Latin American history. The insecurity of his status as an exile and the prospect of a wandering life must have been fundamental reasons for his decision to join a United Nations organization. Of course the CEPAL of that time was not just any common or garden international organization, but one in which original economic thinking was being created through intensive debate: for Medina this feature must have been an additional, although not decisive, attraction.⁵¹

CEPAL's interest in economic development and Medina's vocation for sociology helped him to create the hybrid field of the sociology of development. However, this was not a new preoccupation, since in some pre-CEPAL essays —particularly "Economía y sociología", written in 1941— his interest in the subject is already clear. Moreover, there are others which also attract him, and probably, if his intellectual haven had been other than CEPAL, they might have warranted his later attention: thus, the epistemology of the social sciences and the sociology of culture and of art, among others, emerged strongly in his early writings, and he was to refer to them subsequently with a certain nostalgia.

At all events, above and beyond the reasons which prompted him to join CEPAL and the slant CEPAL introduced in his thinking, the two stages of his thinking are highly compatible, since the first is characterized by the subjects involved in the foundation of sociology in general, and the second by the

construction of the special edifice of the sociology of development on those foundations. This compatibility means that we can be certain that even if Medina had not followed when he did the intellectual path of his first stage, he would have found himself obliged to do so later, when in CEPAL he was faced with the imperative of creating a sociological perspective on development.

The beginning of economic sociology

1. When Medina, in CEPAL, comes up against the need to grasp economic development conceptually, he does so —and he could not have done so otherwise— using the categories of thought which he had been outlining during the previous 20 years. Economic development is undoubtedly a 'social fact', but what are its particular characteristics?

Firstly, does it belong only to the sphere of economics, or has it a broader range which extends to other areas of social reality? Economic development is largely an economic phenomenon —he was even to claim, in the middle of the 1960s, that its 'essential mechanism' is economic— but its significance goes beyond those limits. Economic development is a "phenomenon of social change" in which what changes is "a social structure in its totality, along an identifiable line between two precise moments",⁵² i.e., it is a 'total', 'integrated' phenomenon. This 'total' nature of development, which Medina underlines from his first writings in CEPAL, appears to derive from two assumptions, one historical and the other theoretical. On the one hand, economic development is a piece of the "general process of rationalization", a consequence of the "civilizing process" in which technical power and scientific knowledge converge, as he often said, using the concepts coined by A. Weber. Because of the force of this general process of rationalization, "a universal tendency in our times", history is moving in a specific direction: towards the formation of industrial socie-

⁵¹The cold war and Macarthyism may perhaps have increased the uncertainty of his personal circumstances, but the fact is that Medina, despite his brilliant background as a social scientist, joined CEPAL in August 1952 as an editor —in other words, to improve the style of what the economists wrote— and remained in that position for some years before being accepted as a sociologist. This fact may at least serve as some consolation to all the sociologists who survive thanks to the self-sacrificing work done to improve the language of others.

⁵²"Las condiciones sociales del desarrollo económico" (1955), in *Aspectos sociales del desarrollo económico*, op. cit., p. 51.

ty.⁵³ Because of its total character, this process encompasses and imbues the whole society, including the economic process. On the other hand, there is a theoretical assumption that also lays the basis for this total nature of development: society is a 'system'. "Society is never a mere agglomeration of actions and processes, but tends to be or to become a system, although it perhaps never succeeds in achieving this completely." As a result, "from whatever aspect one begins to examine human life —provided that one does not dally arbitrarily—one is certain of returning once again to the same place after having described a full circle".⁵⁴ In short, not only do the historical roots of economic development make it necessary to regard it as a total phenomenon, but also, like any other social phenomenon, when penetrating into a society which is in itself a 'system', it requires 'conditions' and produces 'consequences' which go beyond the economic sphere. The formation of industrial society involves processes of very varied kinds, and as a result "only in analytical abstraction is it possible to speak of economic development as an independent phenomenon; in reality this process unfolds interlinked with another of a social nature".⁵⁵

Secondly, Medina emphasizes that, although development is a real trend in the historical process, it is also an objective expressly pursued by the social actors. It is at the same time a real tendency which influences and defines the concrete situation of the social actors and an aspiration which shapes the objectives they set themselves; it is reality and aspiration, historical tendency and normative model. For this reason, there are both one and many paths of development, since various possible courses exist, in the selection of which there is a margin of choice, of freedom. Economic development has its inescapable imper-

atives, but these may be compiled with in very varied ways and at very varied speeds, and choice between them requires a substantial amount of human decision; as in individual action, development combines necessity and freedom. In Medina's view, economic development, *qua* social change, always passes via man's consciousness, since any social change is historically and ethically attributable to human decision and responsibility. In making this formulation, he also returns time and again to A. Weber's historical view that peoples with their orientations, which constitute the 'culture process', respond to the challenge of their 'vital aggregates' made up of the combination of the 'civilizing' and 'social' processes. These vital aggregates constitute the reality which is available to be moulded as far as possible to human aspirations and, in their response to it, men and peoples always necessarily manifest "a possibility of preference and choice, of creation and freedom".⁵⁶

These two features enable him to define, in general, the role that falls to the sociologist. If development is a total phenomenon, its student must take into consideration social realities as a whole and highlight the interdisciplinary nature of development, as an object of analysis. This Medina does from the outset of his interest in the subject, but what is the role that falls to the different social sciences? He finds the answer to this question in his pre-CEPAL studies on the manner of tackling social reality: to respect the approaches of the individual disciplines and make use of their results, especially those of economics, but always to remember their limitations, and accordingly the need to complement them with the sociological point of view, both analytical and concrete.

Moreover, if development is both a real tendency and a social objective, the sociologist must leave aside the technical attitude prompted in him by the scientific principle of 'neutrality in values' and adopt a critical posture. Since "this element of freedom is inescapable, the sociologist cannot avoid participating at the time of outlining preferences and decisions.

⁵³"El papel del sociólogo en las tareas del desarrollo económico" (1958), in *Aspectos sociales del desarrollo económico*, *op. cit.*, p. 15.

⁵⁴"Tres aspectos sociológicos del desarrollo económico" (1955), in *Aspectos sociales del desarrollo económico*, *op. cit.*, p. 70.

⁵⁵"El papel del sociólogo en las tareas del desarrollo económico", in *Aspectos sociales del desarrollo económico*, *op. cit.*, p. 21.

⁵⁶*Ibid.*, p. 27.

On the contrary, he is obliged to co-operate critically in making them with maximum possible clarity and responsibility.⁵⁷

Medina maintains this initial conception of development and the role which falls to sociology and sociologists within it in many later writings. For example, he returns to the theme of the sociological approaches to development in 1963 and divides them into two types: those stimulated by praxis and those required by knowledge.

A good example of the first type is social policy, whether it is conceived as 'social assistance', which endeavours to improve living conditions, or as, 'human investment' which aims at developing and improving those social aspects which, like education, can have a decisive effect on economic growth. Medina respects these perspectives, but not only gives them little support with his personal work, but believes that they may lead to erroneous approaches. In particular, they may lead to the social aspects being regarded as epiphenomena or residual of the economic aspects, and to social objectives being subordinated to economic objectives forgetting that the former are independent, respond to "what are regarded as permanent, paramount values" and "are related, not so much to development itself—a neutral and intermediary mechanism—as to the kind of society to which development aspires or which it is intended to produce".⁵⁸

The viewpoints demanded by knowledge do not refer to social problems or human investment but endeavour to interpret the economic process in relation to the overall social structure of which it is part, and they take the form of two variants, analytical and historical, in line with what has already been said concerning Medina's sociological view.

2. His first outline of economic sociology, carried out at the beginning of the 1940s, is devoted to a study of the relationship between economics and analytical sociology.⁵⁹ In it, he

reviews the different ways in which the relationship between the two disciplines at the analytical level has been conceived and outlines a general position on the problem which, with some variations, he will maintain later in his CEPAL writings. One may infer from his structural conception of society that it is necessary to achieve the broadest possible analytical perspective, and accordingly that interdisciplinary efforts must be stimulated. For this reason, he begins by rejecting the typical posture of neoclassical thinking in economics, which keeps its distance from sociology, citing the defects which that discipline is alleged to suffer from, such as the vagueness of its propositions, the preference for imprecise or disproportionate objects of analysis, internal disagreement concerning theoretical perspectives and interpretation of results, and inappropriate use of the scientific method. Medina feels that this is a mistaken position, and the neoclassical criticism, which might apply with some reason to the encyclopaedic sociology of the last century, does not do justice to present-day sociology; those who now persist in such criticism "are not so much manifesting their scientific antipathies as defending their own brand of sociology, in other words, the sociology which is implicit in, and a necessary assumption of, a particular economic system".⁶⁰

As is well-known, other schools of economic thought have emerged to overcome this short-sightedness in the neoclassical approach, such as the German historical school, which emphasizes the transitory and historical nature of the alleged universal 'laws' of economics—which would always have to belong to a concrete society—and North American institutionalism, which opposes the excessively abstract nature of neoclassical thinking and underlines the need for a realistic interpretation of economic life.

Medina believes that the schools of thoughts are correct up to a point, but emphasizes that they in turn commit a basic error since they dissolve economic theory in philosophy, history or sociology to the point of causing it to disappear, but at the same time are

⁵⁷*Ibid.*, p. 28.

⁵⁸"Economic development in Latin America—sociological considerations", CEPAL document E/CN.12/646, mimeographed, p. 5.

⁵⁹"Economía y Sociología" (1941), in *Responsabilidad de la Inteligencia*, op. cit., 1943.

⁶⁰*Ibid.*, p. 100.

incapable of themselves formulating a new and rigorous integrated theory to take the place of the conventional theory. For this reason he suggests that more fruitful paths should be sought in the area of the relationship between economics and sociology —paths which would broaden, improve and not dissolve the theory of the first with the perspective and findings of the second.

The quest for this path is based on two profound convictions of Medina's which must be emphasized. The first is that social science must be first and foremost a science, and that this imperative imposes inescapable requirements. Although it may arise from concrete, and therefore particular problems, the scientific task makes it necessary to rise from them to more general and abstract concepts and relationships, towards those basic 'schematisms' which articulate any social reality. "Under the diversity of the concrete or historical structures of the different societies there are certain schematisms in the most elementary attitudes and relationships which ... constitute the fundamental assumption or foundation of all their manifestations [and] indicate the ultimate and decisive elements in a social structure, on whose existence or non-existence depends the possibility of specific concrete realizations."⁶¹

To this first epistemological conviction Medina adds his belief that among the social sciences only economics has been able to achieve fruitful results at the analytical level, because its theoretical construction asserts itself over a small number of fundamental schematisms. It is true that these schematisms can in turn rest on unreal assumptions or give rise to theoretical constructions which are excessively closed in on themselves, but in Medina's view these are not sufficient grounds for rejecting them. Rather, their success should guide interdisciplinary analytical efforts. "In the study of economic development as an overall phenomenon, the decisive and central role which falls to the economist in this 'interdisciplinary' co-operation is readily recognized by all as something obvious. It is the economist

who must lay down in principle the guidelines for the research, indicating the problematical questions he considers most important and suggesting the tasks which he deems complementary to his own work."⁶²

The greater analytical achievements of economics compared with sociology lie, as has already been said, in the better adaptation of its object of analysis to scientific treatment, but the greater scientific status of economics, whatever the reason for it, justifies both its pre-eminence and the subordination it imposes on sociology in this interdisciplinary relationship. Scientific reason, and not the possible meaning of its objects, is for Medina the basis for leadership in the common task. If sociology enters into the analytical stronghold of economics the most likely result will be negative, since all that it will achieve will be to pull economics down to its own scientific level; it would therefore be best for sociology to fulfil its task from the outside, reviewing and improving the foundations —the assumptions— on which economics rests.

However, as early as in "Economía y sociología", when evaluating some works by Parsons, he warns against the type of analysis which maintains a high level of abstraction and does not seek concrete historical assumptions.

Parsons endeavours to complement conventional economic theory with analytical sociology, for which purpose he proceeds from the basis that, *qua* theories, both are inevitably analytical abstractions and not descriptions of concrete facts. Economic theory is oriented towards the analysis of economic action —which Parsons defines, in the style of Robbins, as rational action, or that which seeks to achieve optimum solutions with given ends and scarce but alternative means — while politics is directed towards the analysis of political action and sociology towards the analysis of social action in general. If economic theory, the theory of rational action, does not stand up to empirical proof it must be complemented with other theories of non-rational action, especially political, and with the general theory of action supplied by sociology. In this way they all

⁶¹"Las condiciones sociales del desarrollo económico", in *Aspectos sociales del desarrollo económico, op. cit.*, p. 51.

⁶²*Ibid.*, p. 48.

remain autonomous and complement one another.

Medina endorses Parsons' attempt to avoid the merging of sociology and economic theory, but believes that it will not be successful if it remains at the level of high analytical abstraction. "The social sciences are not purely and exclusively analytical constructions, but above all concrete sciences".⁶³ The principles of economic analysis and analytical sociology will be useful only when they make it possible to gain knowledge of concrete reality and to find one's way in it; between these principles and reality there is a gap which can only be overcome by means of the '*principia media*' which express the concrete operation of the general principles of the 'structural conditions' in which they operate. The sociological assumptions of economic theory—as conceived by A. Lowe, changing with the changes in reality—are those '*principia media*' demanded by Medina.

As is obvious, in his analysis of the relationship between economics and analytical sociology Medina re-emphasizes the need for a theory which provides the fundamental concepts and principles, but stresses—as he had already done in his criticism of Simmel—that if it remains at this level the theory runs the risk of "sliding over reality". Hence the need for the '*principia media*' which make these general concepts and principles specific in given historical societies. It is this concrete analysis, the ultimate *raison d'être* of sociology and the basis of its nature as 'knowledge providing guidance', which serves as a complement for economic theory by revising the inevitable sociological assumptions on which it is founded. This was, of course, the suggestion by A. Lowe which had so much influence on Medina. According to Lowe, sociology should explore the concrete social assumptions of economic theory which, although usually implicit, are basic components of it. Conventional economic theory was realistic while its sociological assumptions corresponded to reality, and will be so again when they are again consistent with the social conditions which actually exist; and

⁶³"Economía y sociología" in *Responsabilidad de la inteligencia...*, *op. cit.*, p. 118.

in this task of bringing economic theory closer to reality sociology can provide considerable assistance.

Still dealing with the analytical approach, Medina analyses the ambitious attempts which have been made to incorporate sociological variables in existing economic theory.⁶⁴ In other words, maintaining the nature of economic theory as a 'model'—a 'quantified theory' or 'quantified set of hypotheses' which is expressed in causal or correlation relations—they endeavour to insert social variables in it. Medina holds that for the time being these attempts are doomed to fail because of the nature of the facts specific to sociology: its complexity, multiplicity and difficulties in quantification and measurement do not permit the precise establishment of relationships between the sociological variables, and between them and economic variables. The relationships between the latter are 'functions' which make rigorous prediction and practical application possible, but their different nature prevents them from forming a common theory with sociological variables, unless economic theory is to lose in scientific rigour and practical applicability.

However, these difficulties in rigorously establishing the interdependence between economic and sociological aspects have not discouraged sociologists, most of whom base their theories on some assumption about the interdependence which would seem to exist between the various types of human activity; we have already seen that Medina too makes an assumption of this kind, starting in his early works, in line with the Comtean theory of consensus. He knows that it is not possible to establish rigorous relations between economic and sociological variables, but he asserts that there is an important connexion between them. He refers to this connexion in different ways: sometimes he speaks of 'eufunctional' rela-

⁶⁴He sets out these ideas in "El papel del sociólogo en las tareas del desarrollo económico" (1958), in *Aspectos sociales del desarrollo económico*, *op. cit.*, pp. 18-19, and in "Relationship between social and economic institutions: A theoretical model applicable to Latin America", *Economic Bulletin for Latin America*, Vol. VI, N.º 1 (March 1961), pp. 27-39.

tions, using the strictest structural-functionalist terminology; at other times he uses the Weberian concept of "consistency"; and, finally, prompted by aesthetic zeal, he uses, like Goethe, the idea of "elective affinities".

This type of relationship can prove inadequate but "within its limits ... it enables diagnosis to steer a fairly accurate course, in complex historical situations, between the two extremes of exaggerated faith in the value of absolute prediction—scientific and quantifiable—and the discouragement provoked by mere groping in the dark".⁶⁵

The social conditions of economic development

1. It is clear from the preceding pages that for Medina the attempts to link economics and sociology at the analytical level have led to various theoretical impasses. Those who have sought to unite them in a complicated way by creating an integrated scheme of interpretation have come up against the problem of the differences between economic and social phenomena and, at the same time, the different theoretical treatments which they permit; the merging of analytical economics in history or in sociology and the frustrated incorporation of sociological variables in economic models are examples of the poor results achieved by following these incorrect paths.

Sociology should work 'from outside' the theoretical schemes of analytical economics and not seek to penetrate into them. Despite this limitation, its task of supplementation can be most valuable: i.e., to assist in critically refining the economic 'model' by indicating its partial and abstract nature and avoiding the fallacy of inappropriate concretion; to prevent the economic 'bottlenecks' caused by insufficient or poorly adjusted social factors and the social consequences of the application of the economic models; and, above all, to uncover the social assumptions or conditions on which these models are based. It is this last type of interdisciplinary co-operation between economics and sociology which Medina pro-

pounds with greatest emphasis, but he also warns against merely analytical treatment of these social assumptions: once it has reached this point, analytical sociology should promptly yield to concrete sociology, for only the latter will be capable of linking the economic models with the historical reality which gave rise to them and makes them meaningful.

It should be no surprise, therefore, that Medina's first essay in CEPAL is entitled 'The social conditions of economic development'. In it he sets out a preliminary programme for the study of this topic containing all the aspects which, in his view, sociology can tackle in relation to development.⁶⁶ If no account is taken of the order in which the subjects are presented (which must have been a result of circumstantial factors), and if they are analysed in detail, it will be observed that behind them appears an interpretative scheme which derives from his basic sociological categories.

In principle, development is a historical tendency which causes transformations throughout society and, as such, must be analysed from the analytical and concrete points of view. The former deals with the fundamental schematisms which underlie the whole social structure—and which Medina believes can be grasped using Parsons' "pattern variables"—while the latter incorporates the contribution of history; with the contributions of both viewpoints 'analytical typologies' could be constructed which would make it possible to outline the orientation of that historical tendency and the situation of the Latin American countries in relation to it.

However, as has already been said, development is also a social objective, and accord-

⁶⁵"Relationship between social and economic institutions...", *op. cit.*, p. 32.

⁶⁶Medina gives these social aspects various names. The definition most in accordance with his ideas appears to be that which reserves the terms 'social aspects' and 'social factors' for the most general characterization; 'social assumptions' for the external, but indispensable, sociological aspects of an economic theory; 'social conditions' for the aspects which refer to a historical interpretation of a real process; and, finally, 'social obstacles' for the social aspects which hamper the achievement of certain planned economic objectives or, in Medina's explicit terms, the "social bottlenecks which prevent ... the normal and unhindered flow of the desired economic process". See "Tres aspectos sociológicos del desarrollo económico", in *Aspectos sociales del desarrollo económico, op. cit.*, p. 71.

ingly it is necessary to ascertain 'what is wanted', with all the ideological connotations of the subject, the manner and the means to be used and the social groups which will attempt it.

The studies linked to development as a tendency and as an objective, or to put it another way, the analytical, historical and normative approaches implied in them, introduce some of the problems which were of greatest interest to Medina, especially, as will be seen below, in relation to the 'Weberian paradigm'. Using them as a basis, he defines the 'model' of development which will serve as a 'normative orientation' of action by the social actors.

Once the 'model' of development has been defined as a real tendency and a social objective, it is necessary to analyse the social actors who, in a wide variety of spheres of action, must behave in a manner appropriate to it. On the one hand, it is necessary to study the actors themselves—their characteristics, behaviour, motivations and so on—whether they are public or private managers, workers, politicians, bureaucrats, technicians, intellectuals and so on. On the other, it is necessary to analyse the spheres of activity in which these actors operate, such as enterprises, the State, scientific, technical and educational institutions, trade unions, political parties and movements, and so on, in addition to the relationships between them.

Finally, the actors and the spheres of activity exist and operate amidst material, cultural and social conditions which Medina also includes in his list; among the latter he highlights some 'concrete social structures' such as social stratification, the family, agrarian and urban structures, and population.

2. When Medina endeavours to define the model of development, both from an analytical and from a historical and normative point of view, and its social conditions, he enters into a dialogue with M. Weber since, in his opinion, the most profound analyses in this field were formulated by Weber when he inquired into the social assumptions of liberal economics or the social conditions of formal economic rationality.

In seeking guidance in this complex sub-

ject, he says, one calls either on the historian or on the theoretician. In other words, the questions are asked in the concrete terms of the historian or the abstract terms of the theoretician, both equally relevant and important. For the former, the fundamental question refers to the historical role played by concrete social conditions in economic development, while the second focuses on the link between sociological assumptions and economic theory.

According to Medina, Weber supplies the best formulation both of the ideal historical type of the origin and formation of the Western developed economies and of the theoretical model or paradigm of the 'liberal capitalist' structure of a society. In his historical interpretation Weber holds, in general terms, that as economic development is a manifestation of the overall process of rationalization of Western culture, its cultural or spiritual nucleus has been 'economic rationality' and, accordingly, attention should focus on the conditions which have made possible the emergence, development, functioning and maintenance of that rationality. In this rational orientation of economic action and in the conditions which made its continued predominance possible lies the historical root of liberal capitalism. These conditions, in turn, are the social assumptions of the theoretical model of the liberal structure, notably the free market, full competition, the complete appropriation by the enterprise of the physical means of production, freedom of contract in labour relations and the 'laissez faire' State.

A fundamental proposition clearly emerges from the Weberian thesis: economic development is based on the deployment of formal economic rationality, which is what is achieved in the economic relations established within the liberal social structure. This economic development is 'liberal capitalist' economic development, and the conditions for the establishment of a liberal social structure are requirements for the achievement of economic development and social assumptions of the economic theory.

Medina rightly terms Weber's proposition 'the Weberian paradigm', because not only is it a historical interpretation of the emergence of capitalism and an analytical theory of the

basic elements which constitute the liberal social structure, but it also provides, in the hands of his epigones, the framework for the 'model' of society which should be constructed if it is wished to stimulate economic development. In other words, it is at the same time a historical interpretation, an analytical theory and the foundation of a policy for the modernization of society.

In his early writings in CEPAL Medina temporarily accepts this proposition, perhaps because he was obliged to create in a short time—pressured by the 'resentful impatience' of the economists—an economic sociology which would not only explain what economic theory could not explain, but would also make it possible to guide practical action.⁶⁷ Its application enables him to feel on safe ground because, in addition, this proposition served as a basis for the sociology of development which was being formulated in the major English-speaking academic centres; the work of T. Parsons and W. Moore was widely known, and the latter even wrote at the request of UNESCO an essay on the social frame of reference of economic development which Medina often used in those writings.

An example of Medina's acceptance of the Weberian thesis can be seen in his analysis of the social conditions of economic development in Bolivia. Using a list of social 'requirements', drawn up on the basis of the Weberian formulations of W. Moore, he carries out an interpretation of the 'obstacles' to economic development presented by the social structure in Bolivia. Property, working relationships, the market, the political order, the organization of production, public administration, scientific and technical education, are among the aspects on the basis of which he organizes his description and explanation of the social situation and the measures which can be worked out to modify them if they are to serve as a foundation

⁶⁷Years after his first writings in CEPAL he was to express regret for various of his initial lapses. The very term 'social aspects of economic development' was to seem of 'extreme ambiguity' to him, and he only justified it "as the literary recourse of a specialist wishing to collaborate harmoniously with other scientists and entering at his own risk on admittedly foreign territory" (CEPAL document E/CN.12/646, mimeo, p. 1).

for economic development. All these social aspects should endeavour to reproduce the liberal model; for example, concerning the market he asserts that "the type of human relations and behaviour which make the functioning of a market possible constitute an inescapable social assumption for any economic development".⁶⁸

3. However, from the outset Medina is aware of the limitations of the Weberian paradigm, if it is taken as a normative model. Thus, in his first work in CEPAL he emphasizes that the technical, economic and social problems of development in Latin America "cannot be resolved by copying the past or by imitating the supposed real models offered by the more advanced countries".⁶⁹ These models are usually only myths or academic crystallizations which do not exist in reality, and, as a result it is necessary to stimulate 'creative ingenuity' in the task of 'extending industrial civilization'; but as it must be an ingenuity linked to reality, much care is necessary when invoking history in search for the model of development.

Subsequently, in his essay 'El papel del sociólogo en las tareas del desarrollo económico', written in 1958, Medina redirects his thinking on the basis of a critical evaluation of Weber's thesis, in which he concludes that the thesis has been invalidated by history. This invalidation is the result of two processes, which Medina analyses in various of his works. On the one hand, the transformations which have occurred in the 'liberal capitalist' social structures of the developed countries have carried them away from the archetypal features proposed by the paradigm. Among other aspects, there has been a marked reduction in freedom and competition in the different markets and a substantial change in the relations between the State and the economy, and, as a result, the real societies which the underdeveloped countries have before them are very different from the theoretical models which they

⁶⁸"El problema social en el desarrollo económico de Bolivia" (1956), in *Aspectos sociales del desarrollo económico, op. cit.*, p. 115.

⁶⁹"Las condiciones sociales del desarrollo económico" in *Aspectos sociales del desarrollo económico, op. cit.*, p. 36.

are urged to imitate. On the other, socialist societies have appeared, which, despite all the forecasts to the contrary, have found their own path towards the achievement of economic development based on economic processes and social assumptions which are different from those suggested by the 'liberal capitalist' model.

Both processes have drastically reduced the scope of valid application of the Weberian paradigm, since from a historical, theoretical and practical model of all possible economic development, it has become limited to a theory relating to the origin and foundation of the original liberal capitalist structure; the explanation refers to only one of the possible types of economic development, and not to all.⁷⁰

For this reason, the suggestion that in order to achieve development it is necessary to align the social structure with the dictates of this paradigm is "innocent enough if it were not so dangerous",⁷¹ and, Medina insists, the essential task of the sociology of development consists in constructing the desirable and possible 'new models' of social structure consistent with economic development.

This reorientation of Medina's thinking, which starts from a critique of the Weberian paradigm, can be understood as a reassessment of the role played by material reason in relation to formal reason in economic development. Mention has already been made of the differences between these types of rationality when outlining Medina's propositions concerning the scientific and instrumental nature of the social sciences; the same problem now reappears in relation to economic development. Weber suggests in this regard that the only possible development is based on the stimulation of formal rational economic action which germinates and grows in the favourable conditions of the economic and political institutionality of the liberal social structure, but Medina

is convinced that history has shown other paths, through the 'reform' of capitalism and socialism, which are based on a combination of the two types of rationality different from that suggested by classical liberalism. Economic development thus conceived is not the indirect result of the achievement of the particular benefit by the rational economic agents, but —only or also— the planned result of a politico-economic rational action directly aimed at achieving it.

In short, the 'historical invalidation' of the Weberian paradigm leads him away from uncritical acceptance of the 'liberal capitalist' model of economic development and its social assumptions and enables him to glimpse new subjects within the sociology of development. In particular, he is guided towards the analysis of the 'essential mechanism' of economic development and of the 'real models' in which it is manifested, since these constitute the necessary base for devising development strategies, with their specific social conditions, for the countries of Latin America.

4. Even so, his critique of the Weberian paradigm does not imply a rejection of the more general matrix of this school of thought. Economic development continues to be conceived by Medina as a specific manifestation of the overall process of rationalization and, as such, bases its vigour on certain orientations of the economic actions of the important actors which emerge, develop and predominate if they enjoy favourable conditions and the appropriate economic and political institutional framework.

Within this analytical scheme, Medina formulates a proposition which is very important for his sociology of development: economic development has an 'essential mechanism' which can be operated in various ways —all of them variations which occur within the theoretical and historical space separating the extreme types of capitalism and socialism— and the most important 'social conditions of development' are those required by this essential mechanism, plus those linked to the concrete forms adopted by the process.

Medina details the nature of the essential mechanism of any economic development in

⁷⁰The 'Weberian paradigm' is a "social model of economic development which only corresponds to a very precise historical stage in that development". "El papel del sociólogo en las tareas del desarrollo económico", in *Aspectos sociales del desarrollo económico*, *op. cit.*, p. 22.

⁷¹"Relationship between social and economic institutions..." *op. cit.*, p. 30.

his essay "El desarrollo y su filosofía",⁷² following the lines of another Weberian, E. Heimann. Basically, he asserts that "economic development is a continuing process whose essential mechanism consists in the repeated application of the surplus for new investment, and which has as a result the equally constant expansion of the unit of production concerned ... [which] may of course be an entire, large society ..."⁷³

In the societies which existed before the modern era economic activities were regulated and guided by the aims of other institutions (political, religious, family, and so on), to which they were subordinated both as regards their aims and the manner of achieving them; they were "integrated economic systems" in Heimann's terminology. The specific characteristic of historical capitalism—and later of socialism—is the gradual loosening of the ties between economic activities and the other institutions and their slow channelling towards independence, first, and predominance, later. In its extreme ideal type this process culminates in the shaping of pure economic systems, which are those where the essential economic mechanism—generation and productive investment of the surplus in order to expand wealth to the maximum—predominates over and subordinates every other aim existing in the society. Accepting the characteristic exaggeration of any ideal type, what is important is to underline that all the developed industrial societies have had to pass through a stage where their operation is fairly similar to the pure economic systems, characterized by the predominance of the essential mechanism of economic development, although subsequent historical evolution and doctrinaire values have lessened the rigour of this predominance.

This inevitable "economism" of any form of development is manifested in various ways historically and theoretically, although its typical forms are those specific to the capitalist and socialist social structures; in the essay just referred to Medina reviews them under the titles of "market economism" and "planning

economism". In addition, in the final part of "Economic development in Latin America—sociological considerations", after emphasizing that there is no single formula for development, he analyses the different technico-economic, political and sociological options on the basis of which the concrete strategies can be articulated.

We will return to all this in the next chapter when sketching Medina's thinking concerning the relationship between development and politics. For the moment it is merely necessary to repeat that it is on the basis of the 'essential mechanism' of any form of development that the most general and strategic factors of any economic process thus directed are structured.

Even if analysis of the social aspects is limited to those linked to the essential mechanism of development, it is difficult to present a single list of them, since Medina uses various lists, with a different number of assumptions. For example, he reduces the dozen factors he uses in "El problema social en el desarrollo económico de Bolivia" (1956) to five in "Relationship between social and economic institutions" (1960) and to four in "El desarrollo y su filosofía" (1965). However, behind this variability there is a certain constancy in orientation which makes it possible to decide on the genuinely important factors.

The first and fundamental factor is a sort of motivational syndrome which Medina usually calls 'general economic commitment', in which he includes both 'economic aspirations', linked to the expansion of wealth and the improvement of living conditions, and a personal and collective sense of responsibility *vis-à-vis* the necessary and inevitable sacrifices implied by economic development. As is evident, this is an attitude consistent with the technico-economic mechanism of development, and Medina always refers to it emphasizing the aspects of responsibility, sacrifice and effort it brings with it. In the formation of this 'ascepticism' an important role may be played by the educational system, the mass media, the political and trade union organizations and the direct example of the behaviour of the leading groups; its importance cannot be underestimated, since "the most urgent of the development problems of the least ad-

⁷²In *Filosofía, educación y desarrollo*, *op. cit.*

⁷³*Ibid.*, p. 12.

vanced countries derive, or have in the past derived, from the need to create, shape or stimulate".⁷⁴ European experience indicates that the formation of this attitude in the working masses has been a task lasting centuries, but often, in our countries, even the leading groups have not adopted it. In that regard, and pointing to a central problem in peripheral capitalism, he points out that "the first formula [capitalism] can be attractive only if the ruling minority, which temporarily reaps the benefit of the efforts of the rest of the community, is the first to act with the proper sense of responsibility: to put the matter in economic terms, profit must be the visible instrument of rapid capital formation and not the unethical means of ostentatious expenditure".⁷⁵

The second assumption refers to the proper performance by the economic and political actors of the role which falls to them in development. If development is an organized process which requires the best energies of a people, the various economic and political functions fundamental for its success must be performed with skill, discipline and creativity. Skill refers in particular to the scientific and technical preparation required for the proper performance of the various functions, discipline to observance of the standards which indicate what are the duties to be performed, and creativity to the innovative nature which must be imparted to the performance of many functions. In "Las condiciones sociales del desarrollo económico" Medina reviews various social groups whose orientations and behaviour, in terms of the two assumptions referred to, are crucial for development: managers, workers, the State bureaucracy, the middle strata, the political élite and the intellectuals. But he gives priority to the first two, the practical skills of the workers and the executive skills of private and public managers.

The third assumption refers to the general economic and political institutional conditions which make possible and provide a basis for the predominance of the previous assumptions. The various models of development are dif-

ferentiated one from another, in particular, by the type of institutional framework they impose; however, they all have the same need for stability and continuity. Ownership may be public or private, the surplus may be appropriated by the State or by individuals but, in principle, all these institutional norms require a minimum of stability—as a necessary though not sufficient condition—to fulfil successfully their mission of imposing order. The same happens in the political field, since development is such a complex process that it needs to be organized in a 'programme' which grants regularity, continuity and the possibility of evolution to its essential mechanism and the motivational assumptions and skills which accompany it; the political order must play a fundamental role in maintaining this process of economic and political institutional organization. But together with stability in the economic and political institutional patterns Medina underlines that they must also be mutually 'consistent'. Indeed, he identifies consistency between the economic and political rationalities—or between economic development and democracy—as the crucial political problem of development.

At all events, and notwithstanding what has been said to the effect that these three 'strategic' aspects form a *'leitmotiv'* emphasized many times by Medina, he changes them when, at the beginning of the 1960s, he shifts his view to Latin America. Then, he does not bring into discussion the 'model' of development to be followed, but asks whether any type of development will be possible, whether its essential mechanism can be applied successfully.

In formulating this concrete question concerning the possibilities of development in Latin America he defines the strategic social conditions, giving much greater emphasis than in the previous trilogy to political aspects. Thus the new social conditions which are necessary for economic development demand that there should exist a social class or group which has control of the State, knows how to manage it with legitimacy and efficiency, and is guided by a set of ideas on development—an ideology—which is clear and precise. Stress on the civil society and its principal economic

⁷⁴"Relationship between social and economic institutions...", *op. cit.*, p. 33.

⁷⁵*Ibid.*

elements, managers and workers, has given way to the political power structure and its privileged classes, the 'political' class and the 'ruling' class.

However, these changes do not signify definitive theoretical changes of direction, but express differing analytical interests appropri-

ate for different objects of analysis, since at the same time as he looks towards the political problems of development, he insists that his colleagues should study industrial managers, urban workers and trade unions. Development continues, in his view, to be an overall phenomenon.

IV

The challenge of modernization

At the beginning of the 1960s, Medina finally decides to write on Latin America. He leaves behind the years when with methodical zeal he constructed his conceptual framework, and dedicates himself to outlining his interpretation of social change in this region.

From a methodological viewpoint, this task brings out his idea of history, since he is aware that "any sociologist interested in the phenomena of change relies, though he may not say so, on a theory of historical development, a conception of history in its total process".⁷⁶ The basic principles of his conception of history are very clear: the history of Latin America is a fragment of Western history, since the gigantic 'process of transculturation' which began with the Conquista was so profound that it converted the former into an often active and creative part of the latter, and the essential feature which gives meaning to Western history is the process of rationalization, of which economic development and social and political modernization form part, with specific manifestations. This process of rationalization embodies the essence of a tendency which dislocates 'traditional society' and tends to form the 'new society', modern and industrial.

However, Medina never believed that the process of rationalization was an unstoppable forward thrust in the history of Latin America, since he never shared in the naive evolutionism of many of those who, like him, conceive social change as a transition from the traditional to the modern. The history of a people may

show evolutionary trends which appear to channel it gradually towards an objective, but the reason for this happening lies in the determination of the people, in the motivated efforts of its members, and not in the supposed autonomous vigour of metahuman forces.

This important aspect of his conception is clarified in the light of what he called "the fundamental structure of the historical process".⁷⁷ He holds that this process can be conceived similarly to individual action; like the latter, it is a complex combination of necessity and freedom, of conditioning and spontaneity. Any people possesses material, technical, social and cultural conditions which, at the same time as they contain a range of possible alternative actions, fix the limits of what is objectively achievable. The alternative finally chosen from among those objectively possible will depend on the 'assessment' made of them by that people and on the decisions which are taken on the basis of the assessment. For that reason he asserts that "nothing inevitably determines the progress of mankind", which will always be the result "of a spontaneous and free act within the framework of the inevitable".⁷⁸ The fundamental structure of the historical process teaches us that it is not possible to resolve the 'enigma of the future', despite the efforts made in that direction by predictive sociology, among other sciences (which he reviewed in 1971).⁷⁹

⁷⁶*Lecciones de sociología, op. cit.*, p. 195.

⁷⁷*Ibid.*, p. 191 *et seq.*

⁷⁸*Ibid.*, p. 193.

⁷⁹In one of the chapters of his article "Desengaños del

The past of a people and its present circumstances may indicate which are the basic tendencies in its orientation and which are the possible, and perhaps most probable, paths for its future. But they cannot make this prediction with certainty, since among the basic circumstances and tendencies of a society and its future is human mediation: the interpretation and evaluation of them by the members of that society and the resulting decisions provide history with its connotation of freedom and indetermination. Man has often felt sure he could solve the enigma of the future—religious prophecy and scientific forecasting provide evidence of these hopes—but Medina prefers the more modest recourse of the 'diagnosis', which through knowledge of the structure and trends of a situation facilitates the choice of some action alternative.

Bearing in mind this "fundamental structure of the historical process", there is no doubt that while for Medina the process of rationalization in Latin America is a real historical tendency, observable in many different spheres of human activity, it is in no way an end which will inevitably be fulfilled. Rather, it is an objectively possible alternative whose present degree of realization and future probability will vary substantially from one society to another.

If the future always includes a considerable margin of uncertainty, why should history be conceived as a definite transition from traditional to modern society? The reason for this procedure is in principle methodological, since, following Weber, Medina believes that the variety of historical phenomena can only be organized, described and explained using ideal, pure types. As is well known, these pure types are pure in that their elements, because of their extreme character, manifest complete consistency, an 'ideal' alignment of meaning. They are constructed on the basis of historical phenomena but are not a description of them; nor are they a theoretical model on the basis of which reality can be inferred, or a set of principles based on values which serve to guide action in that reality. They merely constitute a

desarrollo", in *Discurso sobre políticas y planeación*, op. cit., which is entitled precisely "El enigma del futuro".

tool for knowledge, a heuristic instrument which enables us to come to know reality by contrasting it with the ideal type.⁸⁰

M. Weber constructed many ideal types of social action and relation on the basis of the principle of rationality and believed that he had discovered the essence of real social phenomena by contrasting them with these types; he asserted that reality was not necessarily rational, but that he supposed it to be so for heuristic purposes. The distance between the pure type and the real phenomena enabled him both to highlight the specific features of the latter and, on the basis of them, to "put it in its place" in the almost infinite set of historical events, and, in addition, to suggest hypotheses concerning the role which some irrational elements might play in it. Medina might have made similar assertions concerning the methodological significance of his concept of "modern industrial society", but neither of these thinkers was able to avoid ambiguities and misunderstanding; the pure type tended—in the minds of others, and sometimes in their own—to cease to be a conceptual instrument and become a social objective. Increasing rationality, economic development and social and political modernization, which are regarded as tendencies in the historical process and, at the same time, from a methodical viewpoint, as ideal types, can only with difficulty avoid being transformed similarly into the 'future images' which must guide the social process. At all events, it is worth repeating that neither of them considered that these processes had a path traced in advance or that they were directed towards an inevitable aim. If it proves possible to construct the modern industrial society, it will be by dint of a hard and conscious human effort.

⁸⁰"In default of an outline interpretation, whether entirely valid or not, no light at all can be shed on the situation under consideration, and any attempt to influence it becomes meaningless. Again, the dimensions of the situation in question—and therefore of its interpretation—necessitate the simplifying devices for which the theoretical term is 'types' or 'models', and which in any case, far from portraying reality as a whole, merely trace the prevailing patterns that are indispensable for an understanding of those aspects of the existing state of affairs which deviate or diverge from them." "Social development of Latin America in the post war period" (CEPAL document E/CN.12/660, mimeo, p. 2).

The traditional structure and its decline

1. The sociological considerations which Medina formulates concerning the economic development of Latin America are explicitly and inevitably historical, since the analysis of the present situations and its predominant trends has its root in the past: "it cannot be maintained with regard to Latin America that what carries it on towards its future has no continuity with what has made it historically what it is".⁸¹ Schematizing his thinking, it may be affirmed that he constructs this historical interpretation on the basis of a characterization of the fundamental features of the traditional structure which has been forming since Independence, in order subsequently to delineate the nature of and etiology of its crisis and the emergence of the modern forms of social organization. In addition to the guide which this general outline provides for him, Medina's historical analysis has a precise delimitation which is given it by the social requirements of development. In concise terms: if the development of Latin America must be guided by a perfectly rational programme of action and must be based on a social class or group which, through control of the State, is capable of directing it, the principal question which must be asked of the present situation therefore refers to its ability to meet these requirements. In analysis, attention should be focussed on unravelling the present reality in order to learn its potentialities and errors in terms of these requirements and studying the past in order to find the origins of both. Medina's central question is: what is Latin America's present situation *vis-à-vis* the need imposed by these requirements? And his reply teaches us that the complex combinations of traditional and modern elements which are characteristic of our reality represent—even for the hopeful who succeed in overcoming pessimism—a formidable obstacle to development.

2. Any consolidated social structure relies on certain 'supports' or 'foundations' of a material or economico-social, spiritual or ideological

and political nature. The traditional structure of independent Latin America—the 'complex from which it springs'—had its own: the *hacienda*, liberalism and the traditional political system.

Among these he highlights the *hacienda* as the fundamental support. Any social structure has an institution which is its prototype, and that which corresponds to the traditional structure is the *hacienda*, a 'privileged' institution which articulates "from within the immense geographical body of Latin America". The *hacienda* formed Latin America materially, economically and socially. The *hacienda* is essentially a unit of economic production and a form of property. But it is also a centre of political and military power, which stands out even more clearly when the State apparatus of the colonial period disintegrates; the support of a family structure and the symbol of a family name; the basis for a 'social group' with its complex system of duties and functions organized by the authority of the seigneur; and finally the foundation of a seigneurial human type and way of life. However, it is not the only significant economico-social unit in the traditional structure, since together with it there exist the mining centres, and above all the cities, which are the seat of commerce and of the State and spiritual authorities. Beside the landowners stand the urban bourgeoisie, and the clash between them constitutes the most important political and ideological conflict up to the early decades of the present century.

If the material foundation for the traditional structure is the *hacienda* and the spiritual foundation appears and develops in the cities, the focus of the latter is liberalism, that "form of living and thinking". Encouraged by the opposition to absolutism, the metropolis forms the basis of the ideology of the independence movement and, accordingly, one of the "essential elements of the complex from which Latin America sprang". This complex takes shape "under the sign of freedom". It is true that in those years there were "military revolts, *coups d'état* and numbers of constitutional changes; but it is also true that there was never open denial of the ideals of the Independence movement and that, even under the most notable 'strong men' the letter of the constitu-

⁸¹CEPAL document E/CN.12/646, mimeo, p. 16.

tion still paid respectful tribute to the principles of liberalism".⁸²

However, the material and spiritual foundations of the original independence-gestating complex are initially contradictory, and in this inconsistency —“the first, and perhaps most striking paradox” of Latin American history— lies not only the cause of many political conflicts but also one of the reasons for the frailty of liberalism in this part of the world. Even so, liberalism penetrates and takes root in some of its doctrinaire manifestations —Manchester economic liberalism, constitutionalism, positivism and so on— to a sufficient extent to constitute the only ideology which has exerted a deep and prolonged influence.

From these material and spiritual foundations arises a political system which is consolidated when, in the second half of the last century, most of the countries of Latin America found some compromise formula to resolve the conflict between the countryside and the cities, between the agrarian oligarchy and the urban intelligentsia. The organization of the political institutions —electoral systems, State powers, public administration and so on— and the relations between them are designed on the basis of the European and North American liberal democratic models, the political parties organize as parties of the ‘caucus’ type⁸³ and the basic political mechanism involves a contrast and compromise between two parties —liberals and conservatives— whose relations are encouraged by areas of common interests and orientations and by the symbiosis which personal and family support permits.

Each of the foundations on which the traditional structure rests —material, spiritual and political— has its own dominant class which controls and guides human activity in those areas. In his analysis Medina gives special attention to two of these classes: the

‘political’ and the ‘ruling’ classes. The political class, which emerges from the compromise between liberals and conservatives, assumes responsibility for “putting the State together” and constructing the economic infrastructure, two essential pre-requisites for development in that period. The ruling class, the bearer of spiritual power, gives the traditional structure the solidity stemming from its continued adherence, despite its changes, to the nucleus of the liberal ideology. The two classes are closely linked to each other and to the materially dominant class —in fact, their members ‘circulate’ easily in the different areas and are clearly aware of belonging to the nucleus of power— and this link constitutes a framework which connects the various foundations and gives consistency to the traditional structure as a whole.

3. When its supports weaken, however, the traditional structure begins to decline. The *hacienda* begins to change into a mere profit-making concern, becomes ‘commercialized’ under the influence of the domestic and specially external economic dynamism, and the consequences of its transformation are as extensive and profound as the functions it formerly played in its role as a fundamental support of the traditional structure. Medina suggests in passing some of these consequences, such as the psycho-social problems —*anomie*, uprooting— caused by the disintegration of seignuerial paternalism and the expulsion of the labour force from the countryside to the cities.

Liberalism always suffered from an inherent fragility because it was in contradiction with the beliefs and ways of life of the majority, the rural population, and because of its utopian nature. The liberal utopia has two decisive ingredients: belief in the rationality of man and the conception of politics as dialogue and peaceful coexistence, and these began to suffer from the irrationalist attack which started in the second decade of this century and have lasted up to the present not only in Latin America, but throughout Western culture. Rationalist optimism has been succeeded by a profound mistrust in the power of reason, and the political standards of coexistence, dialogue and compromise are wavered down in favour

⁸²*Ibid.*, p. 39.

⁸³“Traditional local leaders, maintaining close ties with one another, supported each other on such occasions as election, through temporary organizations of party men who set in motion the well-known machinery of political gatherings, with oral or written statements of proposals and promises, but the members of these parties did no more than cast their vote or provide temporary support, with varying degrees of enthusiasm, for the actions of their leaders.” *Ibid.*, p. 92.

of "the urge of rash minorities shaping the destinies of their peoples to take *blind decisions*". The crisis of liberalism brings with it a profound "ideological disintegration" and great "spiritual confusion", from which we have still not been able to emerge. But Medina warns that these should not "convey the impression of chaos and upheavals" nor encourage impossible restorations, but should only promote the sometimes profoundly heterodox effort of "re-elaboration and reconstruction necessitated by liberalism, in both the political and economic spheres".⁸⁴

The decline of the *hacienda* and the crisis of liberalism deprive the traditional political system of its basis of support since, just as the new ideologies do not succeed in occupying the place left by liberalism, the new political elements do not succeed in forming a legitimate and efficient system. On the surface of the political process one may note that there is no political formula which replaces the old two-party system of liberals and conservatives and gives it stability; in the background one may perceive the cause of this shortcoming: there are no new political and ruling classes to take the place of those which guided the traditional society and, as a result, there are no strong political parties with clear courses of action which are capable of taking charge of the transformation.

In this point, perhaps, lies Medina's greatest preoccupation *vis-à-vis* the transition, since he poses time and again the same question as that posed by M. Weber with regard to Germany at the end of the Bismarck régime: which are the social classes and groups that are capable of leading and guiding the new society?

As already noted, his response could hardly be called optimistic. "The old oligarchy undoubtedly retains some of its capacity to command and its notion of national unity, but individual interests may weigh too heavily to allow it to act *effectively*. The new leftists, not only because of the urgency of their relentless daily problems, but because of their training and their idealistic dreams, usually have a

rather limited concept of what national *legitimacy* really means, and scant instinct for power and command."⁸⁵

The military also usually seek to recover lost legitimacy and efficiency but fail "because modern technology has become enormously complicated and requires compromise, planning and concerted action which, even with the best intention, cannot be called into being overnight".⁸⁶

Nor do the new masses, which originate first and foremost from rural-urban migration, represent a solution to the problem of the political vacuum. On the contrary, the fact that they have been uprooted and the 'mass situation' in which they live —characterized by congestion, insecurity, frustration and resentment— together with nostalgia for the lost traditional paternalism, may be the ideal breeding ground for demagogy, extremism and the thriving of populist parties. The latter, erratic, dependent upon improvisation and inefficient, "spell grave danger" for Latin America. Thus, these new masses not only cannot provide the basis for a solution to the political problems, but in their present state represent a source of instability; in fact, they pose the enormous problem of their responsible integration into national political life.

But might not the solution lie in the hands of the middle classes? Medina does not answer this question lightly, but meditates upon it at length, both because of the influence which the bourgeoisie had in the development of the central countries and because of the importance attached to the question in the early 1960s in Latin America. In fact, he poses the problem of the middle classes as early as 1955 and, when analysing social stratification, highlights as a central question the small size of these strata in most Latin American countries —a weakness which is accentuated when one considers agriculture and the urban goods-producing sectors.⁸⁷ But in the same report he warns that the solution does not merely involve increasing the number of members of the

⁸⁵*Ibid.*, pp. 98-99.

⁸⁶*Ibid.*, p. 99.

⁸⁷"Tres aspectos sociológicos del desarrollo económico" (1955), in *Aspectos sociales...*, *op. cit.*, p. 92 *et seq.*

⁸⁴*Ibid.*, p. 65.

middle classes; it is necessary to consider in addition other aspects "of a qualitative nature, more difficult to analyse, but which are reflected in the difficulties involved in their rapid adaptation to the new economic conditions".⁸⁸

When he takes up the subject again in 1963, the years appear to have proved him right as regards the importance of the qualitative aspects; the paradox implied in the "Hoselitz hypothesis" —that the countries with larger middle classes, such as Argentina, Chile and Uruguay, are those which manifest the worst symptoms of stagnation in those years— he explains in terms of ill-directed 'dispositions' and 'attitudes' of those classes. In order to analyse the most important features of these classes he constructs the ideal type of the 'original bourgeois attitude' and contrasts it with the real attitudes of the present middle classes in Latin America. The distance he measures between them is enormous. The bourgeois culture which stimulated capitalist development in the centres was a complex combination of a "will for economic transformation", in which predominated the tendency to accumulation and investment, the spirit of innovation, risk and competition, the moral exaltation of labour, asceticism, and so on; a "will for independence *vis-à-vis* the State", which demanded that the State should fulfil its role in guaranteeing the rules, but rejected its economic intervention beyond the strict limits which were laid down for it; and a "will for social reform", which was expressed in the supreme values of freedom and equality. If the present bourgeoisie in the centres has already moved a considerable distance away from this ideal type, our middle classes have never even come close to it. On the contrary, although there have been slight indications of these attitudes in this part of the world, most of the members of the middle classes have endeavoured to adapt to the predominant economic and political patterns rather than trying to transform them radically. They are 'faceless' middle classes, which do not respond to Medina's appeal: "where do we find the self-control and discipline of the true creators of

modern capitalism the energy and austerity of the young *samurai* who built up modern Japan?"⁸⁹ In any case, even if it proved possible to create middle classes which were aggressive, ambitious and accumulation-minded—an 'acquisitive bourgeoisie'— there would not be enough of them to guarantee development, since what they can do depends in the final analysis on the "calibre and resolve of the 'political class' and on the guidance that can be provided by the '*pouvoir spirituel*' of the 'ruling class'".⁹⁰

4. When evaluating the results of economic and social development in Latin America, a feeling of ambivalence is inevitable: these results are simultaneously positive and unsatisfactory, some progress has been made but not enough, and accordingly achievements are intermingled with shortcomings and frustrations. Medina's sociological explanation is clear: this is so because it has not been possible to affirm resolutely the economico-social, ideological and political supports of the new society. Since the traditional supports are incompatible with the requirements of modernity, modernity can only be achieved if the foundations which are consistent with it predominate. But why has it not been possible to consolidate the foundations of modernity? Because, in fact, they coexist and combine with the traditional foundations, giving rise to a structurally heterogeneous society whose development is thereby hindered.

As is obvious, this combination of traditional and modern features can be explained both by the lack of vigour of the modern elements and by the survival capacity of the traditional elements. Is the absorption of the middle classes by the traditional structure a consequence of the weakness of the middle classes or of the strength of the traditional structure? In so far as this is a question of relative weakness or strength, it is not easy to resolve, and accordingly Medina does not finally opt for either. In "Economic development in Latin America—sociological considerations" he gives greater emphasis, to the weakness of the modern elements, while in

⁸⁸*Ibid.*, p. 95.

⁸⁹CEPAL document E/CN.12/646, mimeo, p. 84.

⁹⁰*Ibid.*, pp. 85-86.

the introduction to "Social development of Latin America in the post-war period" he presents his well known hypothesis on the 'flexibility' of the traditional structure which absorbs or assimilates modern elements without modifying its basic foundations. "The 'traditional' structure has been relatively permeable, and ... this permeability has enabled it to absorb such elements of 'modernity' as it has needed without damage to the structure itself."⁹¹

This heterogeneity has taken a wide variety of forms. Sometimes it involves the mere persistence of traditional forms, as in the case of some agrarian social relationships; in others, the traditional structure assimilates modern elements without being radically modified, as in the example already given of the middle classes; in many others hybrid forms emerge and predominate which are neither traditional or modern, since they correspond to the transition, as occurs in the clientage system and in populist movements and régimes; and, finally, the decline of the traditional forms may lead to 'gaps' which are partially and inadequately filled by diverse elements, as in the ideological confusion caused by the decline of the liberal ideology.

At all events, Medina believes that the coexistence of traditional and modern elements is the feature which defines the situation in Latin America at the beginning of the 1960s and that, in addition, the agreements are more important than the conflicts in this coexistence. "What is important is not so much the differences and tensions between two different ways of life, as the thread of their continuity — in other words, their interpretation, the reactions of the backward sectors and the efforts towards expansion of the most advanced."⁹² The latter is the reason for which he also rejects the so-called "structural dualism" which was so fashionable in those days.

Finally, mention should be made of the problem of external influences. The short outline in the preceding pages might give the

erroneous impression that Medina does not attach due importance to external influences in the development of Latin America. In fact, however, he emphasizes the "tremendous impact on the history of Latin America (and indeed, on the Hispanic world in general) of events taking place outside it, more than once with adverse effects" and it is not a question of the influence of isolated facts, since because this region is part of the Western world, the stages in its politico-social history "coincide with specific moments in European history (the only universal history at that time) until we reach the period of the world wars."⁹³ These general references are useful in order not to repeat some already cited examples of external influences, such as those which were manifested in the 'comercialization' of the traditional *hacienda* and in the break-up of liberalism.

5. The outline of Medina's sociological view in the preceding pages is very schematic, since the concentration by the author into ideal types is compounded by the brevity of this survey. Many theoretical suggestions and erudite digressions which enrich the original texts have had to be excluded in order to highlight the most important propositions, both methodological and theoretical.

At all events, it is obvious that at the beginning he is somewhat disappointed when his analysis leads him to conclude that social classes or groups which could stimulate the development of Latin America do not appear to exist. But instead of depressing him, the certainty of the existing difficulties finally strengthens his faith; he says to himself: "let hope triumph over any scepticism" and he asserts that despite everything "Latin America *fará da sé*". From that moment, the middle of the 60s — both his and those of the century — Medina looks forward, towards the new society, and from then on all his writings will be attracted by the "enigma of the future".

The society of the future will inevitably be the product of human decisions, choices between alternatives, and Medina begins by clarifying which are the most important, both

⁹¹CEPAL document E/CN.12/660, mimeo, pp. 5-6.

⁹²CEPAL document E/CN.12/646, mimeo, p. 19.

⁹³*Ibid.*, pp. 16-17.

in the technico-economic and the political and sociological fields. Leaving the first of these aside, as they are very well known in the relevant literature, Medina sets out four political choices relating to economic development: *laissez faire* or State intervention; open or closed growth; the claims of power or those of the general weal; and, most serious of all, whether the inevitable sacrifice is to fall on some or on all. From the sociological viewpoint there are three choices: whether economic development will be accompanied by reforms in the social structure and to what extent; whether a general spirit of discipline is to prevail; and whether the support and participation of the people will be encouraged. As is obvious, these do not represent "irreducible oppositions" but alternatives between which different possibilities exist. Medina—in his role as a technician—emphasizes that what is important is to choose, to decide, and to do so in such a way that the final result of the choice moulds a coherent picture which will serve to guide action.

In order to make these choices clearer, Medina outlines the two models of society which, in his view, represent the most significant historical 'options' for the developing world: the "Soviet model" and the "Western formula".⁹⁴ And if he already gives indications of his preferences when he sets out the political and sociological options in the abstract, when dealing with those 'historical types' of society he sheds his technical neutrality and declares himself openly for the Western formula. For that reason his reflections on the new society—which encompass the last fifteen years of his life—do not constitute an abstract, neutral shuffling among possible actions, but the defence of his choice of democratic society—a defence which was as passionate as his character, very little given to stridency, would permit.

In defending his utopia of democratic society he warns from the outset that the greatest danger lies in the tendency, which

⁹⁴He deals with the two models in "Economic development in Latin America—sociological considerations" (CEPAL document E/CN.12/646, mimeo, p. 107 *et seq.*); and in "El desarrollo y su filosofía", in *Filosofía, educación y desarrollo*, *op. cit.*, p. 17 *et seq.*

reappears time and again over the centuries, to sacrifice democracy on the altar of economic efficiency. And this is certainly the reason for which he rejects the Soviet model. "The totalitarian formulae, Soviet and other, may be more efficacious in many eventualities, but a man who is heir to the best European tradition will always prefer the possibility of dialogue or, to put it another way, he will prefer the perhaps intangible value of *legitimacy* to the pragmatism of *efficiency*."⁹⁵ But the idea has also penetrated deeply into many of those who include towards the Western formula, who assume that an authoritarian régime is the purgatory through which the countries which embark on economic development without an appropriate political framework must pass. Medina rejects this idea; for him it is essential to find a path to development which maintains faith in the possibility of democratic coexistence.

"There is always a hope that, even at the eleventh hour, men may arise who are able to turn ineptitude into efficiency, who are able, if need be, to perform a final, saving operation. On the other hand, the complete evaporation of beliefs, the moral collapse that may result from the dissolution of faith—the psychological disintegration of a whole society—can only lead to hopelessness and 'extremism' ... Psychological disintegration implies, at the most, mere selfish resignation, content to gratify its most 'human' and immediate interests, and, at the least, escape to an 'ivory tower', represented, perhaps, by one of the world religions. Let us, then, face this possibility—as is fitting for adult, mature beings—and at the same time let us hope, and still more firmly determine, that it be not translated into fact."⁹⁶

Democracy and planning

1. The defence of the utopia of democratic society is the *leitmotiv* of what was later to be the final stage of his intellectual task. Indications of it certainly exist throughout his work, but from the beginning of the 1960s it begins to stand out as his principal concern, which he

⁹⁵CEPAL document E/CN.12/646, mimeo, p. 127.

⁹⁶*Ibid.*, pp. 164-165.

will never abandon. The justification for his defence is simple: if one is going to fight for a new society, it must be worth living in. For would it be worth while fighting for base or ignoble values?

Within his sociology of development the subject of democracy appears for the first time in 1960,⁹⁷ in relation to the institutional conditions which make possible and lay the foundations of the basic social assumptions—motivational and behavioural—underlying any process of economic growth. These economic and political institutional conditions may be very different in nature, ranging between the extreme types of capitalism and socialism, but it is essential that they should have a modicum of continuity and mutual consistency.

The rationalities which structure and guide the economic and political institutions must be compatible—this is the functional principle which orients his initial political analysis. But since in those years he accepted the predominance of economic values in development, he assumed that the technico-economic requirements of development had priority and asserted that the problem consisted in determining the types of political organization compatible with it. Undoubtedly there are types of political organizations which are not compatible with economic development, such as, for example, traditional authoritarianism and populism. No matter how much they might wish to do so, these do not constitute suitable political instruments because often they cannot overcome the incompetence, corruption, ideological confusion and other difficulties which weaken their rationality at both the ideological level and at that of the State institutions. In general terms, the history of the past few centuries indicates that two generic types of political organization have existed which are compatible with economic development: liberal democracy, with its 'original' and 'pluralist' variants, and the forms of modernizing authoritarianism which range from the charismatic régimes of many underdeveloped countries to the régimes of the Soviet type.

⁹⁷In "Relationship between social and economic institutions..." *op. cit.*, especially p. 35 *et seq.* See also the final pages of chapter III of the present study.

But before continuing with the presentation of these two types of political organization compatible with economic development—which rapidly leads to the very heart of Medina's thought—it is necessary to emphasize that with the years he modifies his initial acceptance of the priority of economic values. Up to 1970 he holds that the relationship between economic development and democracy should properly be viewed from the angle of both economic and political values. In other words, if it is fair to ask which types of political organization are compatible with particular economic development objectives—as he does in 1960—it is also reasonable to ask which types of economic organization are consistent with a democratic political order. Thus, he says, this relationship "can equally well be postulated as an analysis of the political conditions of development and as the reverse: i.e., an analysis of the economic conditions of a given political order, democratic in this case..."⁹⁸ In addition, he warns that it is undesirable to linger too long on an abstract proposition which perceives this relationship as one between economic and political rationalities, because, in the final analysis, only a few concrete questions are of interest: given the present economic situation and the intention to develop, what are the most appropriate political instruments for that purpose? or—given certain political conditions which it is sought to improve in a certain direction—what are the most appropriate economic means to do so?

2. Democracy is one of the two types of political organization compatible with economic development, but what should be understood by democracy? Just as there is no single model of economic development, there is no single model of democracy; but, equally, just as all types of economic development have an essential mechanism which they share, democracy has its fundamental principles without which it ceases to be what it is. These principles relate to the existence of a minimum of political representation and respect for the sanctions of public opinion, effective social participation, and the existence and mainte-

⁹⁸In "Discursos sobre política y planeación", in the book already cited of the same name, especially, p. 7.

nance of individual rights. The political participation referred to in the first principle may vary and has varied in its forms over time, since individualist democracy has given way to 'pluralist' democracy. The latter, the only possible form at present, "consists essentially in the political acceptance of the social reality as a complex of highly diverse groups, each with its individual interests and therefore prone to conflicts and disputes with the other groups, but all complying with a common standard so as to seek the most fitting agreement and compromise in each case which arises—in consideration, of course, of its temporary character".⁹⁹ But pluralist political participation, with its varied forms of formal and informal representation, does not exhaust the participation which democracy requires. This participation must also be social in nature, as is indicated by the second principle, and through intermediate groups such as the community, the trade unions and the enterprise, should stimulate the broadening of the horizons of the citizens to encompass the State and its international connexions. This social participation prompts Medina to suggest that 'economic democracy' is an implicit element in the very definition of democracy, but he never developed this knotty subject.¹⁰⁰

Finally, the third principle emphasizes the 'liberal content' of democracy, its 'assumptions based on *jus naturale*'; in other words, the doctrine "that all individuals as persons have specific and inalienable rights apart from and independently of any form of participation: natural, civil, political and social rights...".¹⁰¹

This definition is therefore democratico-liberal, since he links the specifically democratic component of political and social participation with the liberal component of natural rights and the 'state of law', which is the indispensable guarantor of those rights. The two components very briefly sum up the fundamental values which make it possible for existence in society to be worth living.

3. It is not difficult to accept that political democracy and economic development are com-

patible systems, since many historical examples exist which show that they are. However, it is not valid to infer, in Medina's view, that this observable empirical relationship between wealth and democracy means that wealth produces democracy or, to put it in a more complex way, that the achievement of a high level of economic development makes it possible to distribute income, access to education and other economic and social opportunities more fairly and to reduce internal tensions, thus decisively contributing to the establishment of the necessary and sufficient conditions for the existence of democracy.

Medina does not deny that these economic and social conditions can have favourable political effects for democracy, but he believes that democracy is founded on its own values, its 'imponderables', which are in no case a mere by-product or consequence of economic conditions or values. What he suggests tentatively at the beginning he affirms vigorously in his last writings: liberal and democratic ideas stem from conceptions of *jus naturale*, and accordingly have an origin which precedes and is independent of those relating to capitalist or socialist economic development; they were neither formulated nor defined on the basis of economic development, nor did they propose to encourage it directly. Those ideas constitute beliefs concerning political legitimacy; they are, if you will, an illusion, but they have considerable autonomy *vis-à-vis* economic circumstances. For that reason, he opposes to the 'materialistic' relationship between wealth and democracy the 'idealistic' relationship which stresses first and foremost the value of beliefs, "the importance of long-accepted imponderables".¹⁰² Many factors help to weaken or strengthen democratic values and behaviour—as comparative historical analysis shows—but none of them can be raised up to the status of their sole cause. Between the structural conditions and the historical results—let us once again remember this central proposition of Medina's—stands human mediation with its value-based decisions.

This defence of democracy for what it is in itself, as a socio-political value, prompts him

⁹⁹CEPAL document E/CN.12/646, mimeo, pp. 151-152.

¹⁰⁰*Ibid.*, p. 163.

¹⁰¹*Discurso sobre política y planeación, op. cit.*, p. 43.

¹⁰²CEPAL document E/CN.12/646, mimeo, p. 144.

to reject any conception which attempts to base its legitimacy on other foundations. In this regard he expresses his disagreement with M. Weber and J. Schumpeter, who, convinced of the weakness of the foundation based on *jus naturale*, endeavoured to justify democracy by its instrumental value, its capacity, as an institutional procedure, to find responsible leaders or renew ruling teams smoothly. In the same way, he agrees with the radical criticism of the present democracies in the centres, in the sense that the nub of the crisis lies in the fact that the ruling groups have not been capable of maintaining the original principles of legitimacy—built on the values of freedom and equality—and as a result have justified their rule in terms of their economic achievements, the constant expansion of wealth. Medina agrees that democracy is substantially weakened, as a principle of political organization, when it is deprived of its foundations in *jus naturale*, the specific values which gave it origin and meaning, and when it is justified only in terms of its usefulness as a means for achieving given political or economic ends.

4. It has already been noted that the propositions set out by Medina concerning the relationship between economic development and democracy change, between the 1960s and the 1970s, in the direction of increasingly vigorous defence of the relative autonomy of democratic values *vis-à-vis* economic circumstances and values. But in addition a very important change in the intellectual climate of political sciences occurs between those years. At the beginning of the 1960s there was great confidence in the possibility of expanding and consolidating democracy in the countries of Latin America, and in doing so in a way largely consistent and parallel with economic growth. Medina was not so optimistic in those years; rather, the disappointed undertone in his “Economic development in Latin America—sociological considerations”—due to the incompetence or weakness of the middle classes, the insufficient transformation of the agrarian structure, the distortions of populism, and so on—also influences his assessment of the possibilities of democracy in Latin America. At all events, the theoreticians of modernization—those

with whom Medina engages most frequently in a dialogue in his writings on these subjects—were confident then of the future of democracy; Medina only reminds them of the intrinsic value of democratic values and, in the face of the optimism generated in them by the equating of wealth and democracy, underlines his conviction that democratic values will not be achieved as a bonus to economic growth, but must be sought for themselves.

From the end of the 1960s the difficulties faced by the reformist régimes and the reality of authoritarian governments weakened the most solid hopes, and those theoreticians of modernization who believed that the relatively parallel achievement of economic growth and democracy was possible began to question whether democratic institutions which are regarded as embryonic, unstable and immature could support rapid economic growth and bear the transformations inherent in it. In the face of these prospects, and convinced that a minimum level of economic development was a necessary condition for achieving a stable democracy, they believed that it would be best to organize the political systems on the basis of ‘mobilization’, in other words, the organization and application of all available human resources in a manner which did not exclude political compulsion, if that was considered necessary to achieve the economic objectives. In fact, they proposed to sacrifice democratic political institutions to economic efficiency, convinced that the authoritarian régime would be a transitory episode since the historical process—in the customary terms of the evolutionism of the theory of modernization—would lead to the inevitable achievement of wealth and democracy. Thus, still according to this view, “the economically backward countries cannot follow the traditional paths of the democratic countries in order to overcome their backwardness, and ... for that reason they will not escape an authoritarian period, either as a result of a process of mobilization initiated by a doctrinal group or a charismatic figure, or as the result of an increase in the decision-making capacity of the executive sector of the inherited State”.¹⁰³

¹⁰³ *Discurso sobre política y planeación, op. cit., p. 116.*

Medina also vigorously rejects this point of view. Firstly, and in accordance with what was said above, he disagrees with the economism of this view which subordinates the achievement of democratic values to economic growth; secondly, he emphasizes the Weberian view that a stable political order cannot be supported merely by coercion, but also requires the spontaneous consent of the governed, their self-discipline. The latter is evident from an analysis of the historical experience of the authoritarian régimes oriented towards economic development, which shows that the very efforts of these régimes to ensure economic and educational transformations diversify the society and thus facilitate the emergence of forms of conflict and aspirations for democratization similar to those it was assumed they would eliminate. So why should this experience not be taken into account before throwing democratic institutions overboard? Finally, this view appears to vary in its applicability depending on the level of development of the democratic values and institutions achieved by each country at a given moment; in fact, it seems even more regrettable and inappropriate to disrupt democratic institutions and beliefs when—as in many countries of Latin America—they have already been maturing for many years. But Medina is consistent to the end: even in cases of little or no democratic tradition it would be advisable to start along the path of development hand in hand with democracy, since as many historical cases show, when democratic ideals are strong they can help to make bearable the social and political disruption and maladjustment produced by economic growth because of its ups and downs and the structural transformations it brings with it.

5. Economic development, as a process relatively open to human decisions, means choosing between technico-economic, political and social alternatives, and Medina emphasizes time and again, from the beginning of his sociology of development, that planning must play a fundamental role in preparing for, making and implementing these choices. For that reason there should be no surprise at the preference he gave to this subject in his last years and his lengthy explorations of the rela-

tionship between democracy and planning; in fact, planning is a special form of looking at economic development, which accentuates its political components by considering it as a process of decision-making and implementation. But the greatest attraction that the subject of planning has for Medina is that through it he once again engages in dialogue with some of his favourite interlocutors: with Comte and his hope of achieving a rational ordering of society; with Weber and his prophetic vision of a disillusioned world, where the excesses of instrumental reason threaten the freedom of man; with Mannheim and his conception of planning as the instrument of a total transformation of society to achieve the broadening and defence of freedom.

Democracy, as has already been pointed out, is worth while for its own sake, because of the values which it embodies, which are founded in the principles of *jus naturale*. This is the final bastion of the position which Medina defends; but there are other, earlier bastions which also help to sustain democratic ideals by pointing to their instrumental value for economic development. This is so, in principle, in the case of Medina's reflections seeking to demonstrate that democratic planning is possible because there is no fundamental incompatibility which prevents the planning of economic development from being carried out within a democratic political system.

However, the defence of democratic planning encounters difficulties linked with the fact that there exist other components of planning, the technical and administrative components, which have also attempted to shape it in their image and likeness, giving rise to what Medina calls 'bureaucratic' and 'technocratic' utopias of planning.¹⁰⁴ The utopian component of both consists precisely in the fact that they claim to concentrate the power involved in the decision-making process of planning in the hands of their respective social supports: bureaucrats and technicians. The bureaucratic utopia holds that the bureaucracy must have the decisive role in planning, since planning cannot function efficiently without the rational

¹⁰⁴See "La planeación en las formas de la racionalidad", in *Discurso sobre política y planeación*, *op. cit.*

apparatus provided by the bureaucracy; the expansion and consolidation of rational administration do indeed accompany and underpin the formation of the modern State and the development of the economy. But technicians and scientists maintain that they, or science and technology alone, have at least as good a record as bureaucracy to justify their directing planning; in order to prove this assertion, they say, it suffices to glance at the role they have played in the economic and political process in recent years.

The realization of one or other of the utopias is not a simple matter, since it requires the satisfaction of some socio-political and cognitive conditions which are difficult to realize in present circumstances. Firstly, it calls for the acceptance or imposition of the intellectual supremacy of either the bureaucracy or the technocracy, for which purpose they must be capable of showing irrefutably that the knowledge they can attain is absolute and sufficient; secondly, it is necessary for this intellectual supremacy to be converted into political supremacy, defeating the other groups which are also fighting for power, and, finally, the bureaucrats or technocrats must succeed in legitimating the resulting socio-political order made up of an enlightened—bureaucratic or technocratic—élite and the subject masses.

At all events, Medina deals with both utopias in detail, since they are present in many of the prospective analyses which are being carried out in the developed countries, and stand at the centre of many sociological and philosophical polemics. Furthermore, he wishes to contrast them with the democratic utopia and, in passing, to launch a few darts at those in Latin America—and there are not a few of them—who have technocratic or bureaucratic illusions. Science, technology and administration, in Medina's opinion, play a fundamental role in planning, but, at least for the moment, they cannot dream of achieving a monopoly of power in the short term, still less believe that through them it will be possible to achieve the hope of shifting from complex power relations among men to the straightforward administration of things.

The democratic utopia of planning reaffirms the political component which the other

utopias believe they can overcome, and maintains that the decision-making power in planning should in the final analysis rest with the people and its political representatives. In an extreme version, which rejects the role of the scientists, technologists and bureaucrats, it is obviously unattainable. But as regards its view of the final depositaries of political power, it has much better arguments and background than the other utopias to legitimate itself.

The specific question which is of interest when considering the possibility of democratic planning is: can planning, with its characteristic institutional techniques and mechanisms, fit within the democratic system? Medina replies in the affirmative, since he believes there is no incompatibility between their political structures or functions. Rather, he asserts that they share some very similar political functions, such as those of articulating values and linking them with the objectives aimed at and the means of achieving them; maintaining and making possible socio-political communication through participation; discovering gaps and inadequacies in resources, and hence promoting their creation and rational allocation; and constituting symbols of legitimacy to guide the attitudes of the population.

But, in particular, democracy is a system of choices which articulates the alternatives that arise in all the important spheres of the life of a society and supplies channels for participation in the decisions referring to them, and there is no structural obstacle to its also including the economic choices specific to planning in its institutional machinery. Clearly, Medina does not deny that there are concrete difficulties in this process, but he emphasizes that they do not derive from any assumed inconsistency between the basic principles which orient both democracy and planning. However, consistency between the institutions and machinery of either—their 'structural relationship'—should not be sought only at the level of the Parliament and the central State apparatus, for the relationship of planning to the economic, social, regional and community interest groups at all the stages of plan formulation and implementation is also of importance. At all events, Medina believes that as long as the party system functions

acceptably it should constitute the principal area where the fundamental economic choices are compared.

6. The set of activities which go to make up economic planning include, to a greater or lesser degree, the most important types of rationality whose social bearers are the protagonists of the utopias outlined. Of course, each of them —scientists, technologists, bureaucrats and politicians— participate to some extent, during the exercise of their activities, in all the types of rationality, but one is specific to them and defines what is typical in their role in planning.

The technologist is guided in particular by the instrumental or technical rationality, which is, essentially, that which endeavours to supply the most appropriate means to achieve an end, or, given certain means, tries to maximize the results, or attempts to predict the consequences of an action. In his activities he pays special attention to the means or instruments to be used for the achievement of objectives which he has not selected himself. The aims and objectives, the future image of the society which it is wished to create, the criteria which guide the diagnosis, have not been established by him, and he restricts himself to preparing models or strategies for action in accordance with guidelines given to him beforehand.

The bureaucrat is guided in his rational activities by specific 'procedures' laid down by norms and regulations; he also of course knows something of the reality of the things involved in his activities, but his typical rationality is the 'functional' rationality, which organizes the implementation of an activity in accordance with certain administrative procedures whose establishment and modification in the final analysis fall outside his strict competence. The politician develops in his activities a 'political' rationality which is divided into two forms: firstly, it has the principal task of taking decisions concerning the ends which guide planning as a whole, and secondly, it must rationally organize the functioning of the entire process of negotiation linked with the taking of decisions.

Now, if one may be permitted a perhaps excessive simplification of Medina's thinking

on this complex subject, one may affirm that in reflecting on these different rationalities he returns to his profoundest existential problems. In the first place, he expresses his fears that such growth may take place in the technical and functional rationalities that it will finally impose their criteria —of bureaucratic and instrumental 'efficiency'— in spheres of life which should be governed by their own autonomous values. In that regard, he repeatedly underlines the indispensable role of politics in planning, as a decisive affirmation of a value content and a hope for material rationality; nothing is more foreign to his beliefs than the alleged 'futility of politics'. Secondly, he expresses his defence of democratic principles as basic criteria which should structure and guide this necessary political rationality.

The undeniable challenges raised by the development of reason have led many philosophers and sociologists —and also many youth protest movements— to maintain that industrial society is moving towards an impasse as a result of the unrestricted predominance of technological reason, which has gone beyond the sphere of technology and economics and now seeks to dominate all human activities to the detriment "of other forms of reason, not only historical and vital reason, but that sole original and all-embracing reason which provides a basis for man's permanent critical reflection on himself and his own creations: the Reason which gave birth to the enlightened thinking of ancients and moderns".¹⁰⁵

In the face of this 'one-dimensional' social organization, which threatens to destroy all human freedom, all that seems possible is "radical resignation" or "a desperate attitude determined to resolve the problem fundamentally once and for all". Medina is not in agreement with these attitudes: he accepts that the process of rationalization has undesirable socio-political effects, but the reaction to them should not be resignation or apocalyptic destruction. Rather, the task involves "firmly bringing into play a powerful creative imagination capable of devising at the appropriate time the various political and economic in-

¹⁰⁵ *Discurso sobre política y planeación, op. cit., p. 87.*

struments for negotiation and commitment which are capable of overcoming it effectively".¹⁰⁶

The process of rationalization is a universal trend in our time which has made it possible to palliate the scourges of poverty and premature death. We cannot go backwards, rejecting progress. But neither is prosperity sufficient in itself, and for that reason it is necessary to check the excesses of these manifestations of reason and fight against the ambitions of technocracy, economism and bureaucratization. In this fight it is necessary to avoid desperation; fortunately, the scientist, the technologist and the politician can be well prepared if they have learned to respect the dictates of their own rationalities, which teach them the distance which stands between the desirable and the impossible. If they are mature they will know that the hope for a better society lies in "the rigorous analysis of scientific intelligence, the critical consideration of enlightened discourse and the pragmatic orientation of prudence as political reason".¹⁰⁷

In short, if Medina had permitted himself to give a piece of advice, he would have said that in the present circumstances of Western culture —of which Latin America is a full member— the most important objective is to defend democratic values and institutions both from their traditional enemies and from those who, in the belief that they are defending them,

mistakenly defer them to an uncertain future when propitious economic and social conditions exist for their establishment. To be a democrat means to uphold their intrinsic principles now, fighting to recover them effectively. If institutional maladjustments exist because parliament, the parties, the electoral system or any other of the institutions do not function properly, the required reforms or changes must be made in them, without rejecting the principles on which they are based. If an 'overload' of demands occurs as a result of the growing political participation encouraged by the economic and social changes, the solution is not to eliminate some of them in a repressive manner, but to educate the citizenry with a view to "bringing about a change in the currently impaired or downright perverted attitudes of individuals and other social units with respect to the State".¹⁰⁸ Finally, if democratic pluralism produces conflicts, it should be remembered that "every liberal-democratic conception of the political system tends to accept as its point of departure the existence of opposing interests and ideological positions which cannot be finally reconciled at the dictates of an absolute truth possessed as such, but can only come to temporary arrangements, successively amplified to meet the needs of the moment, and worked out through agreement, compromise and mutual moderation of incompatible extremes".¹⁰⁹

V

Conclusion: Taking stock and looking forward

1. In 1974, when he was already over 70, Medina left his post in the United Nations and moved to Spain. He planned the trip as a final return after spending half his life in Spanish America, but for reasons which it is not appropriate to discuss here, he remained in his country only a couple of years, after which he

resettled in Santiago, Chile, and wrote his last essays for CEPAL.

During this European interlude, because of his renewed close contact with European realities after so much time, he readjusted his intellectual perspective and organized his problems, approaches and theoretical sugges-

¹⁰⁶*Ibid.*, p. 92.

¹⁰⁷*Ibid.*, p. 92.

¹⁰⁸"Notes on the future of the Western democracies", *CEPAL Review*, N.º 4, *op. cit.*, p. 133.

¹⁰⁹*Ibid.*, p. 127.

tions in a way which was to become definitive.

In principle, he once again found himself face to face with crisis, with the widespread feeling in intellectual circles of living through a critical time. He felt the presence of a "negative tone of feeling" because of the lost illusions of the post-war period and, though he might disagree on the causes of the crisis, he agreed that the end of an era had arrived.

This awareness of crisis encompasses very diverse areas, but there are two which Medina underlines with special emphasis: the crises in traditional conceptions of development and of the international order.

The crisis in the idea of development began to germinate some time ago; it began with criticism of the conception of development as pure economic growth and a call for its scope to be broadened by adding to it the ideals of human welfare proposing greater fairness in distribution — "narrowing the gap" — both between countries and between regions and social strata within countries. This initial criticism and combination are later joined by a concern at waste, with its salient features of superfluous consumption, squandering on arms and the exhaustion of non-renewable resources, and denunciation of the destructive action which development has brought with it, with consequent ecological deterioration and decline in the quality of life. In their extreme version, these criticisms propose 'other' types of development, which totally reject the traditional conception and seek the creation of a society which is thrifty, fair and capable of meeting the basic needs of all.

The traditional conception of the international order, which originated in the seventeenth century in Europe, is based on the existence of territorially sovereign States whose principal criterion for action is their own *raison d'Etat* and which maintain between each other relations based on various forms of distribution and exercise of political and economic power — dominance of the strongest, balance of power, and so on — regulated precariously by international law, which has never been able to achieve full compulsion. This type of international order is entering a crisis because problems are arising whose

solution cannot be achieved by a single State or a few States, and because forms of international relations are emerging which spread beyond the borders of the States, such as intergovernmental bureaucracies, regional associations and communities, and transnational enterprises.

But behind these important manifestations of the critical consciousness, Medina discovers the old subjects — 'his' old subjects — which once again lead to the discovery of "the drama of Western culture". The thread which links all of them, old and new, is the perennial struggle for freedom, the "repeated fight to avoid or limit the various forms of coercion to which the individual is subjected ... it is a criticism of authority, in its different manifestations in our reality ... in the conditions of national or international life".¹¹⁰ In this way there reappear both the hope that the development of reason will bring with it the conquest of poverty, disease and premature death and make it possible to achieve full human advancement, and the threat that the unilateral predominance of one of the forms of reason will culminate in the coercions of technocratism, bureaucratism, political absolutism and economism. In short, there reappears his persistent concern to ensure that the essential process of rationalization does not subordinate or prevent the meeting of the "moral and aesthetic needs of the individual, his effective desires, the quality and dignity proper to human life and the permanent yearning for communication".¹¹¹

In the face of these problems, old and new, salient and profound, Medina specifies the basic elements of the appropriate approach to tackle them, for the purposes of both investigation and action. Firstly, he emphasizes the need to adopt a universalist attitude which makes it possible to achieve a global viewpoint; this attitude is founded on the fact that all the parts into which the present-day world can be divided are interdependent, that their crucial problems are universal, so that efforts

¹¹⁰"Las propuestas de un nuevo orden internacional en perspectiva", *El Trimestre Económico* (Mexico), Vol. XLV, N.º 179 (July-September 1978), p. 534.

¹¹¹*Ibid.*, p. 540.

to solve them should also be universal, and that the 'compact whole' of the social circumstance of man is not a national society or a region but the world as a whole. Secondly, he emphasizes the need for a prospective orientation which endeavours as far as possible to lessen the indetermination and uncertainty always involved in the "enigma of the future"; this perspective orientation should avoid the extremes of "impatient pragmatism" and the construction of irrelevant utopias. Utopias are necessary and the lack of them "may perhaps be indicative of a serious inadequacy in the interpretation of the present",¹¹² but, in so far as one is a mere witness or minor protagonist, one must not undervalue the realistic analysis of what 'can' be done in given objective conditions. Thirdly, he points to the importance of power relationships at the international level, since they have a substantial influence on the nature of the major universal problems and the solutions which could be found to them, and constitute the indispensable framework which limits any concrete national or international analysis or action.

These basic components—the universalist attitude, the prospective orientation and the dominant influence of international power relationships—are present in much of modern academic and political thinking, but they are not original. Medina suggests that behind them stands the old conception of sociology as the reflection of an era critical of itself, as the "self-awareness of a historic moment"; a conception which attracted him so much at the beginning of the 1940s under the influence of H. Freyer. 2. The implicit balance sheet drawn up by Medina, stimulated by his stay in Europe, convinced him that while there exist at the present time problems and approaches which respond to the specific challenges of the moment, they are also closely related—as could hardly be otherwise—to the intellectual and political concerns and efforts which have been taking root for a long time in the heart of Western culture.

However, in his final years, he is convinced that the problem of peace stands out above the remaining problems and has decisive influence on them; his thesis is that all the important issues of the present era depend on how world peace is achieved and consolidated. The problem is obviously not new, and Medina himself had already tackled it towards the end of the Second World War,¹¹³ but he now returns to face it with renewed vigour, aware of the dangers which total war would involve.

Thus, he dedicates a good part of his last efforts to an analysis of the changes which have occurred in international relations in recent decades, and he does so in a way which has certain formal similarities with that which he sketched in relation to development in Latin America. In fact, these changes are conceived as if they had a leading tendency: the transition from the structure of relations of the cold war to that specific to *détente*, and the latter, like development, is both a historical tendency, a continuing process, and an ideal for which it is worth fighting and which will only be attained by means of human effort.

The structure of relations specific to the cold war is based on the confrontation between the two principal contenders, which assumes the nature of total antagonism. Discouragement of open confrontation between them lies in their military 'parity' and in their shared fear at what would be its inevitable result: the 'holocaust' of humanity. Both contenders represent and propound socioeconomic systems that they perceive as absolutely antagonistic, which gives dogmatic rigidity to the ideas and institutions guiding any internal and external policy, so that they become 'pillarized'. This inflexibility, which affects not only the principal contenders but also the many who cannot avoid their influence, together with the nuclear threat, do not, however, prevent both from obtaining distinct successes in their economic growth; perhaps as result of their "open emulation".

Détente means a general relaxation of tension at the international level and the firm

¹¹²"Latin America in the possible scenarios of *détente*", *CEPAL Review*, N.º 2 (second half of 1976), p. 19 (United Nations publication, Sales N.º: E.77.II.G.2).

¹¹³*Consideraciones sobre el tema de la paz* (Mexico City, Banco de México, 1945).

establishment of the foundations of durable peace. In Medina's view, tension has lessened a little in recent years and positive steps have been taken towards *détente*, but there is still an objective possibility of a freezing of the present situation (competitive *détente*), a backsliding towards previous stages typical of the cold war (conflictive *détente*), or a move forward to durable and harmonious peace (co-operative *détente*).

Medina places all his hopes in the latter. However, he does not conceive it as a permanent and absolute final stage but as a target whose achievement would not only be valuable in itself, but would open up new economic, political and cultural prospects at the international and national level.

From the viewpoint of international political relations this would make it possible to leave behind the old system of security policies based on the defence of national sovereignty, in favour of a globalist or universalist approach aiming at genuine world interdependence: the consolidation of this tendency would permit both growing flexibility in international actions — 'desatellization' — and the establishment and strengthening of world authorities to deal with problematical issues, as well as the reduction of localized wars. As for international economic relations, the most important consequences would take the form of a general attitude of co-operation, the expansion of the international market and the predominance of multilateral over bilateral relations. At the national level it would produce two effects of the greatest importance: firstly, international concord would promote the formation and strengthening of democratico-liberal régimes; and secondly, it would contribute to "ideological decentralization". This process, by destroying the previous rigidity, would stimulate the search for new ideas and policies and their application in development strategies and permit the application of measures which are more flexible, pragmatic and adaptable to specific circumstances.

In short, democracy at the national level and co-operative *détente* at the international level are the two banners which constitute the essence of Medina's axiological legacy. Do they merely represent the optimistic and

utopian enthusiasm of a man of good will? Perhaps, but such men "like those who believe in Reason ... continue to be the salt of the earth".¹¹⁴

Note on José Medina's academic background

Medina was born in Castellón de la Plana (Spain) on 25 December 1903. He studied in the National Institutes of Valencia and Barcelona (1914-1920), and in the Universities of Valencia and Madrid (1920-1926), obtaining the title of Doctor of Jurisprudence. Later he was a Fellow in the University of Paris (1926) and Reader in the University of Marburg, Germany (1931-1932). On his return to Spain he was Legal Officer to the Cortes (1932-1936) and Professor of the Philosophy of Law in the University of Murcia (1934). During a large part of the civil war he was Secretary and later Chargé d'Affaires in the Spanish Legation in Warsaw, Poland (1937-1939).

Exiled in Mexico, he was Editor of the *Colección de Sociología* of the Fondo de Cultura Económica (1939-1944); Professor of Sociology in the Autonomous National University of Mexico (1939-1944); and Professor and Director of the Centre for Social Studies and Director of the publication *Jornadas* in the Colegio de México. Following a short period as visiting Professor in the National University of Colombia (1945), he became Professor of Sociology at the University of Puerto Rico (1946-1952). On 1 August 1952 he began his work in CEPAL; first as an Editor (1952-1955), but later moving on to duties relating to social development. In 1957-1958 transferred to UNESCO to become the first Director of the School of Sociology of the Latin American Faculty of Social Sciences, returning to CEPAL in 1959-1963. On 30 November 1963 he joined the Latin American Institute for Economic and Social Planning (ILPES), where he was Director of the Social Development Division until his retirement on 30 June 1974. After spending some time in Spain he returned to Santiago, Chile, and co-operated with CEPAL until his death on 13 November 1977.

¹¹⁴"Latin America in the possible scenarios of *détente*, *CEPAL Review*, N.º 2, *op. cit.*, p. 19.

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**This study was prepared by Medina in co-operation with L. Ratinoff and E. Faletto and submitted as a CEPAL secretariat document to the tenth session of CEPAL, held in Mar del Plata, Argentina, in 1963. The parts of the document used in the text are some of those written by Medina, such as the Introduction and the first three sections of Chapter IV on the middle classes.

***Published in English as “Relationship between social and economic institutions: a theoretical model applicable to Latin America”, CEPAL, *Economic Bulletin for Latin America*, Vol. VI, N.º 1 (March 1961), pp. 27-39.

*This bibliography is not exhaustive. The dates in brackets show the year in which the article or book was completed, which is not necessarily the same as the year of publication. The incomplete references are to books which it was not possible to obtain when writing this essay.

Notes and Comments

Two statements from La Paz: Raúl Prebisch and Gabriel Valdés*

Address by Raúl Prebisch

Decidedly, I cannot escape from the infectious enthusiasm of Enrique Iglesias. He put me in charge of his Review, he invites me to seminars, and now he has brought me to this meeting, where I have the honour to be addressing you.

Seriously, however, I find this all very gratifying, and I give thanks to Enrique Iglesias for it, since I could not have resigned myself to withdrawing to some twilight corner, there to be covered by the dust of ages, or at any rate not yet, for changes of great significance are taking place which I am striving to interpret, and from which I am seeking to draw lessons and guidance.

I wonder whether we are not approaching the end of an era, in which we cherished illusions which are now vanishing. I should like to comment here on three of these:

— The illusion that here in the peripheral countries we could develop in the image and likeness of the major industrial centres;

— The illusion of the monetary arrangements of Bretton Woods; and

— The illusion of the supreme regulatory role of the market forces.

It was the impressive technical progress of the centres which fostered the first of these illusions. However, technology possesses certain inescapable demands. It rapidly brings ever higher productivity. But for technology to be able to penetrate deeply into the social structure it is essential that a considerable part of the fruits of this rising productivity should be devoted to boosting the accumulation of reproductive capital, both in the training of people and in physical assets.

This is the first requirement, which we are certainly not satisfying properly in Latin America. The second is that this productivity must be genuine, and not obtained at the expense of the environment and the irrational exploitation of non-renewable natural resources. Obviously, here again we are not fulfilling this requirement to the extent that would be desirable.

I should like to pause briefly on this question of the accumulation of capital. Our countries have already shown an outstanding capacity to adopt new technology, without which it would have been impossible to attain our unusually high rates of development, but we have been squandering much of the potential for capital accumulation which accompanies this rising productivity.

*Addresses delivered at the eighteenth session of CEPAL in La Paz, April 1979. Dr. Prebisch is Director of *CEPAL Review*, and Gabriel Valdés is Regional Director of UNDP.

This potential is being squandered through the privileged consumer society and through certain forms of siphoning off income from the periphery which reflect the hegemony of the industrial centres and their technical and economic superiority.

The consumer society is based on the great social inequalities of development. The fruits of technical progress are concentrated above all in the upper strata of the social structure, where the life-styles of the centres are increasingly—in some cases one might even say frenziedly—imitated. These excesses of privileged consumption make it impossible to accumulate capital to the degree which would be possible and indeed essential in order to absorb at increasingly high levels of productivity and income the broad masses of the population still relegated to the bottom of the social structure. This is a stubborn feature of development of which the Executive Secretary has spoken with moving eloquence.

Let us not deceive ourselves. However much we are now told from the Northern hemisphere, sometimes in surprisingly simplistic terms, that poverty must be eliminated, we will not be able to get to the roots of this problem without a frontal attack on the privileged consumer society, whose continued evolution is incompatible, absolutely irreconcilable, with the social integration of the lower strata of society.

The privileged consumer society is the clear result of the desire to develop in the image and likeness of the centres. Yes, I know we have indeed succeeded in doing so, sometimes very vigorously, but the development has been limited to a restricted social circle. It is a socially exclusive form of development. Furthermore, with the passage of time conflictive elements arise which fuel the inflationary spiral when the process of democratization progresses in a relatively unrestricted manner, and this kind of inflation cannot be treated by the traditional monetary remedies.

Such is the outcome of this capitalism which, in its thirst to imitate, is far from austere. Neither austere, nor authentic—nor autonomous!

The fact is that the centres are intimately linked with the privileged consumer society, above all through their transnational corporations, and they play their cards in such a way as to favour this kind of development. They exalt the consumer society, while at the same time shedding crocodile tears over the social injustice of this system.

The centres show a really incongruous attitude, since they stubbornly resist trade and financial co-operation measures which would favour development and alleviate external vulnerability and which, with some adjustments, could also be very effective in transforming the system.

I can understand that in their present critical cir-

cumstances the centres choose to ignore the periphery, but neither did they show any great interest in its problems during the long years of prosperity prior to 1973.

In the periphery we are drifting in the wake of events and cannot seem to make up our minds to launch a resolute assault on the major problems of development. I do not believe that the centres will basically change their attitude until they get over their present major upheavals. What can we do, then?

The answer is that there is a great deal we can do, and it includes actions of great importance. The periphery must wake up to its great possibilities for action. It must wake up to the vast potential for capital formation which it has within itself if only it would clamp down on the privileged consumer society. It must wake up to the fact that it has immense possibilities for reciprocal trade to halt the ingrained tendencies towards external imbalance now re-emerging owing to the recession in the centres and the increase in oil prices.

These are possibilities which must be seized in a determined manner, because however much the growth capability of the centres is restored we could not think of unloading on them all the industrial exports which our development inevitably requires.

I am not, of course, one of those who favour delinking from the centres. Quite the contrary. I am only laying heavy stress on our countries' own responsibilities. Far from evading them, I consider that despite the urgent problems which occupy the attention of both North and South, we could be building up a common strategy to solve the great common problem of development.

Perhaps the most positive result of three decades of international discussion has been the recognition that development *is* a common problem. We have not, however, been able to reach agreement on this common strategy, which would be one of converging measures by developing countries and capitalist and socialist developed countries: a common strategy in which the centres would progressively liberalize their imports from the peripheral countries, in conjunction with measures to liberalize reciprocal trade between the latter countries; a common strategy in which large-scale financial co-operation commitments by the centres should be combined with commitments to mobilize the domestic resources of our countries, all of which would transform —perhaps beyond all recognition— the present type of development in the image and likeness of the centres.

Neither in this nor in other regards am I departing from the idea of the New International Economic Order. I am the very last person who would do so! I am only recommending a joint set of efforts which would be carried out gradually, but whose objectives would be agreed upon as of now —efforts requiring the union of the political will of the centres and the political will of the periphery.

I do not believe that the present monetary upheavals should delay us from concerting this overall strategy. Let us not forget that in the very midst of the Second World War, major measures were conceived for reordering the world's economy.

Among those measures were the Bretton Woods agreements, which played an important role in a now fading era. This brings us to our second disappointment.

Let us not be prejudiced against those who planned the new system. It is really very difficult to conceive of any international monetary system if one of the member countries has the possibility of fostering international inflation.

We are witnessing with mingled anxiety and hope President Carter's tenacious effort to correct the fiscal deficit, which together with the rise in the price of oil is the most important factor in this process. He is striving to close the gap through which an extraordinary amount of international liquidity has flowed: a process witnessed at first with satisfaction by the whole world but subsequently with increasing concern because of the serious disruptions accompanying it. Until the origin of such disruptions is eliminated, the reluctance of countries with large external surpluses to expand their economies is understandable: it would be like watering the garden in a rainstorm!

The situation is clearly understood, I would say, but unfortunately when attempts are made to use a restrictive monetary policy to correct the domestic consequences of inflation of fiscal origin, or its impact on other countries, economic recession with huge loss of income becomes inevitable.

To attack the fiscal origin of world inflation is therefore essential, although this alone is not sufficient to develop a clearly defined expansive policy for the benefit of both the centres and the periphery.

All this will also clear the way for a new international monetary régime which can no longer be based on the currency of a single country, particularly if it is of great international importance.

The periphery's interest in solving this problem is very clear. Its interest is in a healthy monetary system in which the cautious creation of international money, strictly in relation to exchange requirements, can be linked with development financing. This link was rejected by the centres —with some exceptions— because they said it would prove inflationary! What tragic irony of events: there has been no link, but there *has* been inflation!

Finally, I would like to refer to that other illusion which is evaporating: the regulatory role of market forces. No one believes any longer in the spontaneous effectiveness of these forces for correcting the adverse effects of ambivalent techniques, although some governments still believe in their effectiveness in domestic development.

I hasten to state right away that the market forces have great economic and also political importance. If they are to operate efficiently, however, it is necessary to correct the adverse consequences of the penetration of the technology and other propagating phenomena of the centres into a peripheral social structure fundamentally different from their own. A big differentiation must be drawn between the market with its underlying structure and the power relations which derive from it and which influence so strongly the unequal distribution of income and insufficient capital formation. I would not hesitate to say that with suitable discipline over accumulation and distribution the market could become a most efficient technical instrument.

Similar observations may be made regarding the great structural differences between the centres and the periphery which likewise distort the play of the market forces at

the international level. In this connexion, I should simply like to mention one important example, that of basic commodities. While the stabilization plans were being discussed in the UNCTAD meeting in Nairobi, Dr. Kissinger unexpectedly floated his proposal for a natural resources bank. I was inclined to see in his attitude a sign of a change of policy or perhaps of recognition of the need for convergent measures: to stimulate production and ensure regular supplies to the centres, on the one hand, and on the other to offer the periphery a stable and advantageous basis for developing their activities. In other words, to provide a long-term framework in which the forces of the market would operate. A short time after, however, —now away from the State Department— the same Dr. Kissinger declared to United States businessmen that the aim was to obtain basic commodities from the periphery at low prices for the centres. And to think that there are still people who deny that under the laws of the market the benefits of technical progress in the periphery tend to be transferred to the centres!

All this should be part of the world strategy, the strategy of common responsibilities and mutual commitments, to which I have already referred. This does not involve merely a new formula, but calls for a fundamental change in attitudes in the centres and the peripheral countries. Both are failing to take advantage of the imponderable promise of technology. We have become bogged down in detail. We must raise our sights boldly so as to embrace in wider-ranging perspective the great promise of technology —the possibility of extending human well-being to the great masses who are still at the bottom of the social structure.

A prospect which has never before presented itself in the development of mankind has become attainable. It is within our reach if we succeed in linking arms in a common venture: an immense venture in human welfare and —let it not be forgotten in these times— a venture in human dignity.

Statement by Gabriel Valdés

I have great pleasure in conveying to the Economic Commission for Latin America at its eighteenth session the most cordial greetings of the Administrator of the United Nations Development Programme and his best wishes for the success of its deliberations.

I wish, first and foremost, to state with great satisfaction that our co-operation with CEPAL has continued to improve and expand during the past two years, reaching what I consider to be an exemplary level of relations between two institutions of the United Nations system. Thus, it has been possible, on the one hand, to meet the requirements specified by the countries themselves at the CEPAL session in Guatemala City and, on the other, to benefit from that co-operation through a continuing exchange of knowledge and experience.

Since the Commission's last session, and in accordance with its recommendations, full agreement has been reached concerning UNDP's participation in the financing of the new structure of the Latin American Institute for

Economic and Social Planning (ILPES), which is thus initiating a new and promising phase of activities under the direction of the distinguished economist, Mr. Jorge Méndez. Our co-operation with CEPAL has grown. In 1979, UNDP will contribute over US\$ 2,500,000 for regional projects requested by member countries and executed by the Commission. These activities are being carried out in various fields, apart from those covered by ILPES itself, as, for example, those related with the implications for Latin America of the situation of the international monetary and financial system, critical poverty in Latin America, trade with socialist countries, the situation and prospects as regard the production of and requirements for capital goods, education and development in the region, and the creation of technology in the manufacturing sector. Several of these activities are also carried on in close co-operation with other agencies of the United Nations system. I might also mention that we shall soon be initiating activities relating to the rural sector, which will merit special attention.

In the process of the restructuring of the United Nations system, the General Assembly decided that the regional commissions should participate actively in establishing priorities for the assignment of UNDP's regional resources. I may say with some satisfaction that both the first cycle 1971-1976 and the second cycle 1977-1981 were programmed with particular attention to the criteria expressed at the successive sessions of the regional Commission and other intergovernmental organs, and in co-ordination with the specialized agencies as regards the definition of specific fields. We are now preparing to implement this General Assembly decision as efficiently as possible for the next cycle.

We await with keen interest the resolutions that will be adopted here, so that we may know the governments' priority criteria in the field of international co-operation.

The report submitted at this session and the brilliant and comprehensive statement by the Executive Secretary, Mr. Enrique Iglesias, have given a clear picture of the region's economic situation, in a manner which will give rise to a rich and wide-ranging discussion. This is an essential function of the regional commissions within the United Nations system. With intellectual independence and a critical and realistic approach, they are called upon to indicate both positive and negative development situations and to ascertain the fulfilment of the mandates and resolutions emanating from international meetings and conferences, or the gap between them and the specific action and situations actually found in the various countries, and thus to suggest lines of action for consolidating peace through a new, fairer and more stable international order, solving the general problems affecting the region, and helping to increase intra- and extra-regional co-operation. From the angle of international co-operation and the broad topics of concern to the United Nations, I feel it is appropriate to set forth some reflections about certain trends observed in the region during the past decade and their projection for the future. Three broad lines may be identified in this projection, no longer as hypothetical scenarios but as imminent realities if voluntary political measures to modify their course are not adopted. First,

there are the consequences of the close integration of the region's economy, technology and cultural forces into the international sphere. Latin America has given an extraordinary leap forward in its non-traditional exports and the opening up of new markets and sources of supply. The benefits, in both qualitative and quantitative terms, are evident. As is only natural in any process of interdependence between unequal parties, however, the region has become more vulnerable and is clearly defenceless in the face of decisions adopted by the centres. We have not yet achieved the necessary independence to allow of sufficient flexibility between internal and external demand, nor the capacity to find an adequate response to the protectionist or imperialistic policies of the centres, particularly now with the development of a deep-rooted economic recession, which there is a tendency to try to tackle without seeking in truly global relations and the full incorporation of developing countries the only stable solution that is likely to be of general benefit.

If the economic growth rate declines and protectionism in the centres is accentuated, the rates of indebtedness, trade deficits and resulting effects on employment and income distribution will worsen; thus, any possibility of maintaining the present economic policies in many countries will be difficult, particularly if the aim is simultaneously to give those policies a social content, the dramatic need for which is known to all. Of course, any projection should depend on the levels of development of the various countries, but even with that reservation and in line with the situations described in the CEPAL report, if the present type of external relations are maintained and the developed countries continue to pursue their present policy, radical changes will have to be introduced in the international system and simultaneously in the attitudes, style and objectives of the countries' policies to prevent the existing situations from reaching undoubtedly serious limits. The strategies which must now be adopted in the face of sustained recession and inflation should be quite different from those employed with a view to integration in an expanding world economy.

The second projection which emerges from observing the trends followed is the relatively widening gap in terms of economic potential between some countries of the region because of their size or their petroleum and other production capacity. Twenty years ago, when LAFTA was established, there were gaps of this type, which were recognized in the Montevideo Treaty, but they did not prevent clear integration in the field of trade and in industrial complementarity at the sectoral level, and they were no obstacle to the formal adoption of a decision to form a common market. By the end of the 1960s, however, the Association came to a standstill because of the increasing disproportion among its members and the termination of national or regional import substitution policies, which gave place to a decided opening-up to the world market. It is interesting to note now that the gap between countries with a large population and the rest of the Member States in any projection, quite apart from the negative external factors, will tend to increase progressively, with natural advantages for the larger countries. It may be observed, in retrospect, how beneficial it would

have been for all, but particularly for the relatively less developed countries with too small a market, if a common economic space had been created at that time. It is becoming increasingly evident that a bigger population, or the markets of several countries grouped together under the same rules, constitute a determining factor in ensuring sustained growth and taking fuller advantage of external relations, which are themselves—and will continue to be—a decisive factor. Nor does it seem reasonable to continue to maintain contradictory theories as between integration-based growth which takes advantage of markets with unused potential, and individual opening-up to external markets. The European Community should be an eloquent example to convince even the most sceptical that a pragmatic policy in both directions might be best. Briefly, the point I wished to make is that countries with more space and population will progressively enjoy greater viability and independence.

The influence of the major countries of the region will be increasingly important and may be extremely beneficial for all kinds of economic and technological reasons if new forms of sectoral integration or co-operation agreements are proposed to replace costly external relations of dependence, and if external policies are more consistently co-ordinated through the flexible instrumentality established by the governments in setting up SELA. We should consider it fortunate that there are countries enjoying these conditions in the region, that is to say, countries which have a large population base or possess particularly valuable resources like petroleum, since the whole region benefits or should benefit from these great comparative advantages of some of its members. If we project these situations 15 or 20 years ahead, the economic, scientific and technological map of Latin America will be quite diverse, but geographical necessity, cultural identity and the consolidation of other continental groupings will keep alive the need for economic integration, albeit on new bases beneficial to all.

The third projection, which in part derives from the first two, concerns the alarming disequilibrium which has arisen between economic growth and social development in many countries of the region. The increased levels of critical poverty in broad sectors of the population are a source of deep concern which undoubtedly lays open to question the style of development pursued, the social structures created and the mode of international integration adopted. It is only right that CEPAL's report should place the accent on this open wound. It constitutes a severe judgement of certain economic concepts in vogue and reflects a negative conception of the essential meaning of development, while it further constitutes an obstacle to the social consensus and has called forth such explicit statements as that made by the Episcopal Conference at Puebla, which represents the greatest moral force of the region. The time has come to acknowledge frankly that the violated dignity of life of so many inhabitants of Latin America is not changing one iota because certain indexes of growth are achieved for the product.

This is not a problem which can solve itself by obliging the many who ask to participate to wait. Projections indicate that the gaps are widening. This unfortunate

situation—which should never have occurred in so rich and sparsely populated a region where social justice, freedom and respect for human rights are values incorporated in the basic culture of all our societies—cannot be remedied by means of the market, the hand of which is completely invisible as far as the poverty-stricken masses are concerned. Nor can it be solved by the spillover theory which has been so insistently upheld in spite of its failure in both theory and practice. In addition to this, greatest of all problems from the ethical, social and economic point of view, others are becoming characteristic of the region too, such as uncontrolled urban concentration, with its accumulation of population and social ills which are reaching lamentable records at the international level; the need to create productive employment for 200 million inhabitants already born; the ecological deterioration of the region; the increasingly arid land, and the poor utilization of water resources.

These problems, with their respective levels of priorities, indicate a partial or complete lack of integrated development planning. The situations involved, which still appear bearable to those enjoying the material benefits of a consumer society, will constitute factors of irremediable deterioration when projected over the next 10 or 20 years. Without ignoring the progress made in so many fields, the persistence of the aforementioned problems, unless of course they are remedied at their roots, will make it impossible to build a human civilization in accordance with the criteria and objectives proclaimed by the countries themselves at international forums.

All this can be explained by the failure to achieve a proper balance between the indispensable economic growth and social development. In many respects there is increasing conflict between the two, accompanied by growing insecurity and instability. If this course were to be continued—as a United States economist pointed out—Latin America would be pursuing a type of civilization which, by the time it had been hypothetically reached would already have been abandoned by the centres that advocated it, experienced it and suffered its consequences, but which by then would be pursuing other social paths. The civilization proposed in all world contexts is one which places the economy at the service of mankind, of men and women everywhere, and devotes it to the protection of the environment in order to maintain for future generations the possibility of a full human life.

Latin America has been considered the continent of the future. In many respects, however, it could rapidly become a continent that is old in terms not only of its ideas but also of its economic, social and cultural structures and its ecology, and this would be due to the temptation of immediatism in the consumption of goods out of the reach of the broad masses, to a lack of independence, and to the absence of adequate human resource programming. Obviously, this cannot and should not happen, since the region possesses creative capacity, space and more than enough human and material resources. To prevent this reaction from becoming more and more costly as the delay drags on, however, reflection and research are required in order to define the kind of change of course which would obtain the necessary national consensus and external support. In the final analysis, this would involve more

original policy decisions with less imitation, and the economic measures should be subordinated to these.

Latin America played a decisive role in the struggle for the international community's acceptance of the establishment of a new international economic order. If the process is viewed as a whole and in a world context, it becomes clear that radical changes are called for in the financial, trade, technological transfer, and other systems, if the countries of the region are to achieve stable development. At the same time, however, the new international order will have no meaning and will be impossible to achieve in practice unless the serious disequilibria occurring within the developing countries are simultaneously corrected.

The moral validity of the demand for a new structure of North-South relations will be at its height—or perhaps I should say will have attained its fullest justification—when the developing countries resolutely face the problem of the acute disparities between their own inhabitants, critical poverty is eliminated, and societies are organized by the free consensus of their inhabitants.

Within this frame of reference I wish to make three comments on external co-operation.

The first refers to the mandate extended by the governments to the United Nations system in repeated resolutions to pursue the objective of strengthening the developing nation's self-reliance. Self-confidence, progressively increasing independence, the capacity to choose on the basis of the fullest possible knowledge the best options for enhancing the quality of life of all the inhabitants and to receive and transmit information and technology consistent with their own interests: all these make up development as the expression of every society most in keeping with the cultural roots of its people and, therefore, the proper motive and object of external co-operation. This is a complex task because of the growing interdependence found at all levels, but it is precisely this interdependence which creates the need to strengthen the region's autonomy in order to break the dependency relationship and ensure that, on the basis of a new distribution of power, it will receive what it wants, not what others decide, and will be able to contribute what others require. Self-reliance means having goals and objectives, choosing options and upholding policies governing long-term investment in human and financial resources. This does not mean to isolate itself, but rather to participate selectively, and decisively strengthen the internal effort for which there is no substitute. That is why medium- and long-term planning is indispensable, not only for the public sector but for the whole national effort; not only for physical investment but also for technological development and human resources.

In the present-day world, power stems not only from the economic sphere but also from other factors such as the quantity and quality of research and training, and in some cases—even where per capita income is very low—from the great mass of the population, permitting the mastery advanced techniques, including nuclear technology, and making a country's rights and force recognized at the world level.

Latin America as a whole and many of the countries which make it up are among those with the greatest

capacity to act with confidence in their own efforts and thus achieve more benefits from international interdependence. This situation does not seem to be in keeping with the "trade union" attitude of many developing countries, which traditionally confine themselves following as their sole strategy that of demanding from outside the power structure higher prices for their raw materials, more satisfactory financing conditions and compensatory funds, like a person who accepts his dependent status, regards himself as being outside the enterprise and its management, and only demands wages and benefits but claims no participation in the decisions or ownership. I know I am touching on a delicate point, but it is sometimes useful —at the risk of expressing somewhat unorthodox criteria— to recognize the real situation with respect to the different stages of development and to take advantage of the relative position of the region in order to negotiate what it needs from the industrialized world in terms of participation from the inside since, in the last analysis, the benefits and damages in international economic relations are distributed not in terms of greater or lesser generosity or greater or lesser need, but in terms of power. It is a new distribution of power which will establish the New International Order.

Linked with this state of affairs is collective self-reliance. There is every possibility of increasing the individual countries' benefits by taking advantage of the region as whole, whose evident homogeneity—in spite of its already wide disparities— provides the opportunity for a new stage of growth on the basis of proper utilization of the markets and resources of the region itself—an approach which seems inevitable as the centres close in and protect themselves. Thus, new justification is emerging for joint action, for Latin American multinational enterprises, for joint technological, research and engineering enterprises, which can also participate with greater power in the region's external relations.

The determining factor in all this is the political will which, in the case of Europe, was the first to be manifested but which in Latin America has been the most reluctant to express itself.

Self-reliance is determined, however, by a country's scientific and technological progress. Well-known studies show that in the development of the United States the contribution of material factors, i.e., capital and labour, has played less of a part than the contribution of immaterial factors such as the application of science and technological innovations.

Without basic science there is no possibility of creating or adapting technology or of defining fundamental options in the establishment of objectives for a community. With some notable exceptions, science has been considered too expensive a luxury in the region, which has therefore preferred to purchase its results, i.e., technology, as though countries could live with no head, but only a stomach and money. Science is the revolution of our time: its possession and utilization constitute the source of power of a community and provide it with the highest intellectual, cultural and economic returns.

Support for science and technology and their linkage with development are the topics of a forthcoming World

Conference, one of the most important yet organized in the field of international co-operation.

As some countries of the region are already doing, Latin America should make a special effort to consider science and technology as objectives of basic national policy, linked on the one hand with human resources programming and on the other with productive demand.

The reduction of unnecessary dependence, progress towards higher states of independence and the real way to create co-operative advantages through human resources training and a correct set of priorities in the cultural field are determined by the scientific and technological effort which a country can make. Generally speaking, this effort must be made at the cost of sacrificing immediate consumption, but it is the only way to achieve lasting self-reliance. There are, of course, limitations in terms of resources and space in sustaining major efforts in this field. Therefore, horizontal co-operation among countries of the region or among developing regions offers still unexplored possibilities of fairly rapidly opening up a path which has not yet been travelled.

The level attained by the region, its widely varying resources, and each country's specific characteristics make it possible to increase to a considerable extent the activities and benefits of regional co-operation. It is no coincidence that the United Nations Conference on Technical Co-operation among Developing Countries was held in Buenos Aires, for the Latin American countries, in particular Argentina, were the great promoters of that Conference because their own experience and rich capacity show the advantages of co-operation among equals.

UNDP is endeavouring to advance along that road, but in order to do so the governments of the region must adopt a resolute attitude.

I cannot but stress the great urgency of this question. Although the resources contributed by the countries to UNDP increased by more than 60% over the last four years, those assigned to the region have not increased and even seem to be diminishing in real terms.

Compared with the other developing regions, Latin America's share in UNDP's resources has dwindled and new cuts are planned. This is due on the one hand to the contributing countries' policy of granting more resources to the more densely populated countries with lower incomes, and on the other to the relatively greater economic and technological capacity of the Latin American countries. I cannot but express my deepest concern about this situation, which is serious since it tends to reduce the region's benefits as regards access to technology through a neutral channel, according to the governments' will and practically from all fields of development or research, particularly through the specialized agencies. I do not think it would seem out of place in these circumstances if I appeal to the countries of the region to increase their contributions to the programme, not only to help the less developed countries but also to present in the next discussions on the allocation of resources a position more compatible with the region's importance.

Dark shadows loom over the present state of the Latin American societies. Some are due to the international system which is in process of reconstruction; others are

due to internal policies. Over and above everything else, however, there are great unused capacities, as yet unexploited resources, an identity which is making its appearance side by side with the growing regionalism of Africa, the Arab countries and Asia, and the emergence of active transnational forms of culture. In spite of the wide diversity of régimes and levels, there are in the region sufficient factors of similarity to programme a higher level of co-operation, particularly in the scientific, technological,

trade, cultural and financial fields, together with more closely co-ordinated, more specific and more active external action. The instruments are at the governments' disposal. CEPAL knows it can count on UNDP to programme its resources adequately, and on the other United Nations agencies which, at their specialized conferences, also formulate their priorities, while the countries for their part, can rely on the loyalty and devotion of all those serving the ideal of international co-operation.

Statements by Jorge Méndez* and Carlos Martínez Sotomayor** at the opening of the course in social planning organized by CEPAL, ILPES and UNICEF¹

Statement by Jorge Méndez

There are a number of important reasons for a course such as the one which is starting today. The first is that Latin America's social problems remain dramatic. The second, that the solution of these problems cannot be entrusted to the mere passing of time: a patient wait for the benefits of economic growth to reach all members of society, little by little. Human distress does not permit such a wait, nor is it mitigated by the hope that other generations will not experience it. Accordingly, society must decide to alleviate these problems, and must organize itself for that purpose. The third reason is that, while social problems give no respite, since the people require succour here and now, this urgency does not justify inefficiency in spending resources. Social projects must be efficient. In some ways it is more serious to waste some of the resources available for solving social problems than to make ill-judged investment in industry or agriculture. Such an investment represents a loss for groups which can afford it. In contrast, inefficiency in a social project means direct and profound frustration for large masses of people. This is why it is so important that social programmes should be 'operational' in a planned and efficient way.

A fourth reason for this course is that the allocation of resources to solving social problems, and in general legal, financial, institutional and other political decisions designed to deal with or solve social problems, are closely related to the nature —and direction of, and amount involved in, decisions concerning investment in the goods-producing sector— in other words the general state of the economy. Social planning is part of overall planning, and must be carefully and systematically integrated in it.

Because it draws inspiration from such motives as those I have just outlined, so closely linked to the idea of planning —in other words, organizing national efforts, laying down criteria for the use of resources, selecting

mutually consistent targets for society— the present course is of special importance within the programmes of ILPES. On the world scene, it is increasingly clear that growth rates are insufficient as a sole criterion for measuring development.

The First United Nations Development Decade was principally based on the idea that mere growth in the product was an unsatisfactory measure of development, and that it was necessary to add other elements, notably social ones. This was the major symbol of the 1970s: the effort to redistribute the benefits of growth, specifically tackling the major symptoms of poverty, unemployment and social injustice. As a result a series of international programmes aimed at this objective arose in the 1970s: the World Employment Programme, the major projects on demographic policy, the intensification of the efforts on UNICEF, the introduction of objectives of income redistribution in development plans, efforts to satisfy basic needs, and so on. The 1970s should be regarded as the decade of social, humanist, egalitarian reflection.

Nevertheless, we may ask how much progress was made in illuminating the intersectoral relationships which this new social emphasis implied for the theory of development and, specifically, for economic planning. What success was achieved by the efforts to implement major programmes of social change and the comprehensive solution of social problems without impairing the growth potential of the economy as a whole? I would say that progress was certainly made, but that it was not sufficient. It is surprising, for example, that the employment programmes were not converted into all-round, continuing efforts within the development plans. The same applies to ideas on the meeting of basic needs, and to efforts to improve income distribution. The ideal of social change, so proper and so inevitable, has been relegated to second place in most of the countries. What is perhaps even more serious, however, is that the feasibility of reconciling social objectives with a given degree of prosperity in the most dynamic sectors was thrown into doubt when, in many cases, the countries which had ventured, within mixed

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economy systems, to introduce genuinely daring plans for social change, faced serious deterioration in the machinery for economic production, and a resulting series of problems, shortages and short-term imbalances which jeopardized the very continuity and validity of the social programmes.

These difficulties arise, first and foremost, because of the difficulty of achieving genuine success in the technical task of planning social progress. This lack of success is a very serious matter for those of us who have embraced the ideal of social change.

In some circles this had led to a renewed tendency to claim that there is a contradiction between social and economic objectives. Some have concluded that the developing countries cannot aim at major social reforms if they do not wish to destroy the delicate structure of their modern system of production—in other words, that the underdeveloped society needs to impose upon itself some system for repressing popular aspirations, so as to permit the rapid growth of a 'sophisticated' dynamic, modern and efficient sector, which, though small compared with the whole of the economy and society, is taken as a symbol of the success of developmentalism.

The alleged impossibility of deliberately spreading the benefits of development to the popular masses is, for such circles, a justification for the idea that social progress in merely the gradual, slow and suffocating integration of the poor sectors in this modern dynamic sector; this represents a return to the era when purely economic growth was the sole measure.

Questions such as these are once again facing economists, and remain on the agenda for theoretical and political discussions, even though throughout the decade now ending the International Development Strategy appeared to have settled the dispute once and for all. In addition, the renewed force of developmentalism has profound practical implications. The fact is that, although the objectives of social change, employment, the meeting of basic needs, continue to be proclaimed by the major forums of the United Nations and the majority of academic institutions as priority objectives and essential elements in national and international development policies, in practice the policies of most developing countries have focused exclusively on solving short-term problems, in the confident belief that prosperity in some sectors will be sufficient to guarantee, in the long run, the meeting of all the aspiration of the whole society. There is a dramatic contrast between the unanimity with which the countries in the major international forums endorse the validity and urgency of the objectives of social change, thereby recognizing that the present situation of millions of the world's inhabitants is deplorable, and the low degree of effectiveness of concrete social programmes and preference for short-term economic success. In most of the countries, although social programmes are carried out to some extent and are an object of sincere concern and effort for specific ministers or officials, they do not succeed in becoming a genuine national objective. The focus of attention tends to remain on purely economic matters, the balance of payments, the condition of the national treasury, monetary policy. This usually happens even in countries where

concern for social problems is genuine, and where the desire to overcome them is real. The fear of taking major decisions is once again spreading. In the few cases where an attempt has been made to reduce the dominance of short-term economic problems, giving priority to solving social problems, the emergence of imbalances in the external sector, the worsening of inflation or the decline in the growth rate have become such serious problems that on occasions they have threatened the living standards of those same large majorities who were to be helped and rescued through the programmes of change.

In some circles, I repeat, there appear to be grounds for considering social matters as potentially separate from, and even antagonistic to, purely economic matters. To clear up this possible confusion, to seek and identify the genuine types of relationship which exist between social and economic objectives is, accordingly, one of the major tasks of economists. More specifically, it is one of the major tasks of ILPES. It is for that reason that we attach importance to this Seminar-Course. Within the general framework of the theory and practice of overall planning, the course can contribute to reaffirming the value of social policies, their practicability, but also their requirements. Consequently, the course offers an opportunity for a systematic examination of the above-mentioned mutual relationships between social and economic matters.

In the face of the confusion which is beginning to prevail once again, and the consequent need to clarify the relationships between social and economic matters, it is worth starting from some general considerations, which correspond to the orientation of this course and the programmes of the Institute:

(a) Social problems in Latin America are not being solved at the rate required by social justice and the expectations of the great masses of the population. Rather, there are many indications that the extent to which basic needs have not been met has been increasing. Accordingly, action is required which is specifically aimed at correcting present trends.

(b) The improvement of the living conditions of the majority of the population, in terms of employment, education, health, housing, culture, food, recreation and so on, is in itself a clearly positive factor in speeding up economic growth. This social improvement can largely be achieved by mobilizing human, administrative, technical and political resources which were formerly unused. At the same time, the improvement must also be financed by means of transfers of resources from the richest and most dynamic sectors; this may mean, and in general does mean, alternative applications of resources, a change in the rate of investment, and so on. In other words, it means a relative reduction in the resources available to the sectors regarded as most dynamic. A central task of planners should be to ensure that, at the same time as the programmes for social improvement are introduced, the overall dynamism of the economy and the soundness of the monetary, financial and exchange machinery are maintained. Success in the simultaneous achievement of social and economic objectives is something which calls for organization of the economy, in other words planning.

(c) Social projects designed to produce given concrete

results in terms of social change must be efficient projects, in other words they must be brought into line with criteria of organization, administrative control and economy in the use of resources allocated, so as to ensure the best possible results. It is obvious that social projects cannot, in most cases, seek monetary return in the same sense as is required of industrial, agricultural or commercial projects; however, social projects call for even more careful control than any industrial project to ensure the proper use of resources.

The organization and objectives of the Course are, I repeat, founded on principles like those which I have just outlined. For that reason the course falls primarily within the framework of the theory and methodology of general planning. It proceeds from the view that social planning is one aspect, though a highly important one, of the overall planning of the economy. It therefore emphasizes the relationships which exist between the improvement of social welfare and the major variables of investment, consumption and the availability of physical and financial resources, and between the modern dynamic sectors and the traditional sectors. The fact that what is involved is specialization in the social aspects of planning means that these aspects are extraordinarily important for the Seminar-Course, and for ILPES in general. In fact I believe that if it were not necessary to effect major social changes, achieve major social objectives, as an aim which calls for mobilization of the central efforts of the government and those of the inhabitants of the country in general, the urgent need for planning in a given country would not be so great. The adoption of social objectives, and the initiation of social programmes, calls for careful reflection on the sources of the funds required, the effect that the expenditure involved will have on the economy as a whole, and, as we have already mentioned, the best form of ensuring that social projects are efficient. ILPES has been placing increasing emphasis on the social aspects of development and planning, and on examining how social objectives should be integrated in development plans. This is a formidable intellectual exercise of great complexity, but one which provides such abundant benefits that it is well worth all the efforts we wish to devote to it.

This Course, carried out jointly with UNICEF, therefore corresponds to the major task which ILPES has set itself—to attach primordial importance to the social aspects of development. But it also corresponds to the spirit of ILPES in that the inclusion of social objectives is understood as an aspiration which is not only political and human but also technical: a genuine part of the theory and practice of planning. The determination of ILPES that social matters should not be forgotten, that special emphasis should be maintained on social aspects, seems more urgent than ever in the light of the apparent predominance in some circles in the region of the view that there should be almost exclusive concentration on conjunctural problems and effects; or, in the special cases of the countries which have reached a particularly comfortable balance-of-payments position, the maturing of a degree of excessive complacency, a degree of confidence that, as the limitations on development arising from the scarcity of foreign exchange have been overcome, all the structural problems have been solved.

ILPES, of course, is very interested in the success achieved by some countries in opening up their economies much more to the outside, seeking to make their investment more efficient, benefiting from the availability of international capital, increasing new exports and thereby creating a much more flexible, stable and prosperous situation in the foreign exchange market, and a general climate of greater efficiency in the economy. For example, in the last ten years, a growing number of Latin American currencies have become relatively strong, at least in the short run. The lesson of these successes is important; they show the capacity of our economies to react favourably and dynamically to a series of stimuli and favourable market situations. They also prove that the region is rich in resources, and that it possesses an excellent capacity to participate in world trade, which might be expanded still further if the conditions in which world trade is carried out could be reorganized and stabilized.

However, these successes cannot constitute a pretext for forgetting, even for a while, that the major social problems have not been solved, that it is not always certain that the prosperity of the exporting sectors brings with it a similar improvement in the remaining sectors of the economy, and that in some cases the concentration of income is becoming intensified in certain groups, especially those in the financial sector.

New phenomena at the national or international level, which are profoundly different from those which predominated during the 1960s are appearing with increasing force in the region, and this means that the scope and nature of economic and social planning must also change profoundly. Thinking within CEPAL, of which ILPES is a part, has been following these new realities, and is studying them thoroughly. Various countries in the region have become 'new industrialized countries', almost by accident, largely as a result of their success as exporters of manufactures. This status, supposedly an honourable one, appears to have changed the role of Latin America in the major international negotiations, and has placed it in a curious ambivalent situation. For example, financial resources from the major industrialized countries on non-conventional interest rates or terms have practically disappeared. The international community must have begun to assume that Latin America's own capacity to solve the major social problems is adequate. However, in all fairness this capacity should be viewed in the light of the enormous differences in degrees of prosperity, balance of payments and industrialization processes among the countries of the region, and also bearing in mind the fact that even in the most prosperous Latin American countries it is still not certain that, without substantial assistance from the genuinely industrialized countries, resources to permit a comprehensive and relatively rapid solution of social problems will continue to be available on a reliable basis.

Consequently, Latin America has before it the great task of reexamining its international position, its future as a region, the types of effort required, and the concrete forms of regional solidarity and mutual help which are becoming urgently necessary, in the light of the great changes being caused by regional and international circumstances and the recent trends in the development of the industrialized

centres and of the region itself. This reexamination, this incorporation of new realities and concepts, is being carried out by CEPAL and also by an increasingly substantial group—of various ideological tendencies and different theoretical positions— of excellent Latin American economists in universities, research centres and governments. Never, perhaps, has the region been so fertile in producing essays, articles or collective research work.

However, in the midst of the euphoria and the new confidence in Latin America's capacity to achieve substantial progress in the economic and technocratic field, social problems cannot be forgotten. More than ever an analysis of the structural problems and their possible solutions is necessary. The very medium-term and long-term continuity of the prosperity which some countries of the region have achieved demands fundamental solutions in the social field.

ILPES must gather together this great stock of ideas and proposals, conduct research on the major topics of development planning, and pass this on through its training courses, advisory services, the seminars and round tables it organizes, and also through its function as Secretariat of the System of Co-operation and Co-ordination among Planning Ministers.

This Seminar-Course on Social Planning, a joint initiative of the Latin American Institute for Economic and Social Planning and the UNICEF Regional Office for the Americas, is a very important example of this function of the Institute in transmitting knowledge. Furthermore, it allows the two institutions to co-operate in a field which basically involves the search for appropriate machinery and policies to improve the distribution of social benefits.

It is open to a group of participants from some Latin American countries, and aims to discuss problems within the most homogeneous framework possible in the light of the diversity of circumstances in Latin America.

It is a Course in that it aims to systematize studies and experience regarding the analysis of the social realities of the continent and possible policies, while it is a seminar in that it provides for discussion of ways of approaching these realities and solutions.

The Course is in itself an experiment, and we are hoping to draw from it conclusions which will enable us to organize more systematic and formalized training activities in this field.

UNICEF and ILPES have spared no effort to gather together some of the most outstanding specialists from the academic world and from among those responsible for formulating social policies, with the aim of encompassing a broad range of subjects.

The Course emphasizes the idea that "the very concept of development must be improved and the fragmentary approach to economic growth and human development discarded. ...Moreover, human development is not just a question of expanding sectoral action in education, health, etc., but must include a social system that gives priority to the equality and dignity of man and respects and fosters the cultural expression of the population". This declaration by the governments of Latin America during the fifteenth session of CEPAL (Quito, 1973) is a good definition of the aims of social planning, and is the concept which will be used in the Seminar-Course.

To this may be added the declaration of the countries at the seventeenth session (Guatemala City, 1977), that "various public sector social programmes, particularly in education, health, housing and social security, have assembled considerable public resources, acquired complex administrative structures, and exerted a major influence on the levels of living and expectations of broad sectors of the population. These programmes, basically as a consequence of crises of financing, now face the need for major reforms, especially of an administrative nature, which each country will carry out in different ways and with different priorities". I have already mentioned the review of concepts which is being promoted in the region as a result.

Furthermore, it is not sufficient to propose comprehensive social policies to reach the needy groups effectively. Since such groups are not evenly distributed throughout the country, it is increasingly obvious that a geographical dimension must be introduced into social policies; this will make them more complex, but potentially more efficient. This is precisely one of ILPES's areas of work.

ILPES's experience indicates, moreover, that it is not possible to hand out a kind of 'prescription' for social policy. We said above that Latin America encompasses very different situations which can only be merged in a single concept at a very high level of abstraction; in addition, different styles of development exist in the region, so that the solutions are not easily transferable from one case to another, and moreover the characteristics of the diagnosis of the social situation in Latin American countries rapidly change.

The doubts, uncertainties and diversity which are already so obvious in the field of growth and planning only emphasize the difficulties facing social planning and policies, analysis of which has always suffered from a relative lag.

These reflections show that the participants in the Seminar-Course on Social Planning should see ILPES as a United Nations institution which creates conditions to enable them to hold a fruitful dialogue, exchanging experience which has arisen in a wide variety of contexts both among themselves and with those within CEPAL who devote themselves to the subject and have much to learn from the concrete, everyday experience of those working in this field in the countries of the region.

Thus, with the Seminar-Course on Social Planning opening under such favourable auspices, and within such an interesting framework, I should like to wish the participants success in their work and express my thanks to the lecturers and the authors of the papers which will serve as a basis for discussion of the various subjects for their valuable contributions.

Address by Carlos Martínez Sotomayor

The United Nations Children's Fund (UNICEF) takes pleasure in welcoming this distinguished group of specialists who have come here to participate in the Seminar-Course on Social Planning jointly organized by ILPES, CEPAL and UNICEF, through its Office for Latin America and the Caribbean.

This represents yet another stage in the important programme of collaboration which the UNICEF Regional

Office has set itself with the other bodies of the United Nations family, and particularly with CEPAL and ILPES. It is thus also heeding the recommendation made by the governments of the countries of the region requesting our institutions to undertake joint action more in keeping with the concept of integrated development.

I should like on this occasion to comment on a number of points concerning social planning, meeting the needs of children, the nature of this Seminar-Course, and the expectations it has aroused among the governments of the region and international co-operation agencies.

During the three decades of joint work by the governments of the Latin American countries, UNICEF and other United Nations bodies, in activities and programmes in the sphere of social development, there has been increasing recognition of the need to tackle the problems which limit and undermine the welfare of the population within a framework of global action and policies deriving from planned development processes. It is quite clear, as has been repeated in many studies and reports on the situation and development of the countries of Latin America and the Caribbean, that the positive results stemming from the growth of production capacity in those countries have not been distributed equitably among their different social sectors or areas or regions. On the contrary, the benefits have brought no visible improvement to large groups of the rural and peripheral urban population, whose needs have certainly increased quantitatively, if not qualitatively.

Social services in the spheres of health, education, food and nutrition, the maintenance of a healthy habitat and social security have generally been organized and administered independently both of one another and also of economic policies and projects. While the coverage of these services may have increased, they have been limited in various important ways, the consequences of which are felt by the population groups which do not have access to them for social and geographical reasons, and are also visible in the rising costs which appear to fuel inflationary processes, the lack of complementarity among them, and their failure effectively to benefit the sectors of the population whose needs are most pressing.

These shortcomings have been particularly evident in the case of the problems affecting children. Economic growth has not spontaneously satisfied the needs of the new generations, and particularly those of the children of poor families. In addition, the services and programmes organized on their behalf have taken a very narrow view of the need for complementarity among them and of formulating them in conjunction with programmes and projects to strengthen the economic position of families.

However, mention must be made of some positive factors which indicate that social problems are being tackled more effectively. In the first place, it is now widely agreed that the social sphere calls for analysis, the formulation of policies and joint, co-ordinated action by public and private bodies, communities and families themselves. Naturally, disagreement arises when defining just what kind of role each of these should play, or how important it should be. It is also widely accepted that the improvement of the situation of large sectors of the population is the responsibility of society as a whole, since the disadvantages of those groups are the results of the shortcomings of

the styles of development prevailing in the region. Again, the need to allocate more public resources for the provision of social service has been recognized and faced up to by the governments of the region.

These views have been repeated in the International Development Strategy for the 1970s and at international conferences and meetings. In addition, the idea of integrated development, in which economic, social, political and spatial dimensions all weigh equally and reinforce one another, has figured in the public discussion about policy making and resource allocation. It has also been considered in the course of the technical arguments which have taken place in relation to the development of the countries.

Some public agencies in the social sphere have experimented with special joint programmes in those regions and areas of the countries with relatively the worst indicators of social welfare. An attempt has been made to concentrate resources and services in a co-ordinated manner in support of productive projects designed to provide employment and income for families.

Although the importance and effective impact on national policy of planning, as a system built into policy formulation and resource allocation, has varied, in the end its necessity, usefulness and presence has been accepted.

These positive aspects, which do not, of course, offset the negative elements described earlier, form the background for support for the development of social planning in the countries of Latin America and the Caribbean. A summary review of the features of planning systems and their praxis in the countries of the region reveals the imbalance resulting from the greater attention paid to the economic side of development in comparison with the social side. The theoretical framework, the development of methodology and the executing and monitoring procedures in economic planning reveal a far greater wealth of instruments and scientific creativity than is the case in social planning. Equally, from the standpoint of institutions and public responsibilities, the economic planning departments or offices are comparatively more important and have better-defined machinery for influencing decision-making than do the departments or offices of social planning. It is therefore important to strive to reduce this imbalance in the interests of favouring integrated development.

In the training of human resources there has also been a clear preference for the economic and regional sphere of planning. There is a better-defined relationship between academic and research centres and executing bodies and machinery in the economic sphere of planning. In the social sphere, in contrast, it is rather unusual to encounter this necessary relationship. The centres of higher education in subjects linked with social development do not receive the support essential for them to carry out their responsibilities properly, and are not consulted in their spheres of competence to decide important questions of overall policy. In turn, such centres have tended to concentrate on the critical analysis of the social process of the countries, which may be useful but should also be complemented by alternative proposals which could be selected as workable formulas by politicians and government experts.

From another standpoint, it is worth stressing the

necessity and importance of developing social planning, bearing in mind the magnitude of the resources absorbed in providing services which contribute to the social progress of the countries. The education, health, sanitation and housing sectors spend and invest every year large percentages of government budgets. This investment and expenditure must be planned, programmed, monitored and evaluated by those sectors; but in addition there is a need for a multisectoral approach which ensures their complementarity and co-ordination, and links them with national and regional projects.

There are problems and shortcomings which more especially and intensely affect particular groups of the population. For example, extreme poverty appears to be a problem which can be accurately pinpointed geographically and socially; and one which calls for special treatment. This is also the case of deprived or marginal groups, such as indigenous communities and the inhabitants of peripheral shanty towns, whose handicaps need particular solutions. These situations require specific analysis which social planning is in a position to undertake.

The treatment of the problems affecting children will clearly benefit from the development of social planning. In principle it would be much more feasible to plead for more resources to satisfy their basic needs, bearing in mind that expenditure on children represents social investment in the training of the generations which will later play a leading role in the planned development process in the medium and long term. It would be possible to identify more clearly the complementary services needed to tackle their problems in an integrated manner, and identify the family groups which deserve special support because of their deprivation.

Attending to the needs and training of future generations can be done more thoroughly in a context of balanced social development. Better results can be achieved if activities in favour of children form part of the development policy and plans of the countries; but for this to be effective, the instruments prepared and used in planning must take into account the social variables which affect the development process as a whole, and the plans and programmes must be sufficiently specific in their treatment of the sectors best suited for programmes and activities of a social nature.

The importance of paying special attention to the needs of children is fully borne out by the statistics. Recent studies by CELADE show that in 1980, 41% of the 358 million inhabitants of Latin America will be aged between 0 and 14 years, and in the year 2000 this group will represent 37% of 594 million persons.

The consideration of children's problems may also contribute to developing the methodology and programming of social planning, by being specifically included among its objectives. The co-ordination of public services, the distribution of income on behalf of deprived groups, and support for poor families may be achieved while taking into account the needs of children.

UNICEF considers that social planning and policy fall within its sphere of activity, since they are the instrument and framework which enable it to programme and orient its activities on behalf of children and young people, within an integrated view of the social reality of the countries. These

activities also have profound ethical significance, as the problems affecting society are the very problems UNICEF should tackle.

These, then, are the reasons justifying and explaining UNICEF's special interest in the development of social planning. It has co-operated in this field by supporting the creation of social planning units, furnishing technical assistance to countries, encouraging the exchange of experience among planning bodies and by providing training at the country level. It has carried out these co-operation activities in co-ordination with other international agencies and occasionally with CEPAL and ILPES.

This Seminar-Course has some features which I should like to highlight. The participants are specialists from several Latin American countries, some of which have considerable experience in the promotion of social development and planning. In addition, it is a course which provides an opportunity for the participants to contribute the experience acquired in their countries in the field of social planning, or in other words, as its title suggests, it is a Seminar-Course in which the participation of all will help to enhance a field of knowledge and of policy which has hitherto been somewhat neglected.

As lecturers, it has a number of distinguished experts who are well known in international circles and have a great deal of experience in this field; and thus it will also have valuable contributions of the highest intellectual level. This will also help to establish the necessary relations with academic centres which supply theoretical and methodological knowledge to the practical sphere of policy decision-making. In addition, Latin American specialists engaged in research and teaching work in the institutions sponsoring this Seminar-Course will share their experience and the results of their work.

This form of co-operation in training human resources is particularly important in the case of Latin America and the Caribbean. On various occasions mention has been made of the intermediate level of development achieved by the countries of the region in comparison with the industrialized and the less developed regions. This view, which does not, of course, indicate the differences among the countries and the inequalities within them, is in fact tending to limit the resources stemming from multilateral co-operation, thus forcing the countries to seek forms of horizontal co-operation to maximize the use of resources. Among such forms of co-operation, the training of experts is the most promising because of the capacity generated in the use of national resources.

In conclusion, I should like to refer to the co-operation between UNICEF, CEPAL and ILPES. In this latest stage of the evolution of different kinds of international co-operation by UNICEF in the Americas, the characteristics of joint efforts and activities of UNICEF, CEPAL and ILPES can be seen very clearly. This is a positive example of interagency co-operation and of a better use of resources, both human and financial, to achieve the common objectives established by the general mandates of the United Nations for the Fund, the Commission and the Institute.

Thus, joint activities have been undertaken in important spheres to support the development of the coun-

tries. We have combined efforts and resources in inter-agency projects with regional coverage aimed at providing governments with policy alternatives to guide their activities in certain social development spheres. Good examples of this are the interagency project for the promotion of national food and nutrition policies and the interagency project on critical poverty, which are both actively underway. UNICEF also contributed to the preparation and initiation of activities of the project on development and education in Latin America and the Caribbean.

Furthermore, joint complementary studies and research have been undertaken in major socio-economic development fields, on the occasion of international conferences and at the recommendation of the governments of the region. This is the case of the studies connected with the participation of women, technical co-operation among developing countries or horizontal co-operation, water and the habitat. While on the topic of studies and research, mention should be made of the first attempt to provide a complete up-to-date view of the situation of children in Latin America and the Caribbean as a contribution to the International Year of the Child and a basis for the discussions at the special session of the governments of the American region and of the Executive Board of UNICEF in Mexico in the latter half of next May. This study has been undertaken jointly by various United Nations agencies and consultants of the highest academic levels, including intellectual and technical inputs by CEPAL, ILPES and CELADE.

Special studies have also been undertaken in the preparation of statistics and indicators relating to the social development of the countries. Using population censuses and official publications, indicators have been drawn up which reflect the characteristics of social development. It has also been possible to analyse social stratification in the

countries. This dissemination and better use of household surveys makes for better monitoring of the effects of national policy and provides a solid data base for studies and research. In particular, a volume of statistics and indicators relating to the situation of children and young people has been completed. This represents a significant advance on earlier work undertaken jointly by UNICEF and CEPAL, and in this connexion we should like to express our gratitude to the statistical division of the Commission.

There has also been increasing activity in the publication of books and material for dissemination relating to social development issues, and this represents an important contribution to the work of the government agencies, specialists and academic centres of the region.

UNICEF has collaborated with CEPAL and ILPES for several years in the training of local experts, providing student fellowships and financing teachers and researchers on the staff of both bodies.

Finally, this Seminar-Course on social planning and our intention of making it an annual event provides the clearest confirmation of this aspect of our policy of interagency co-operation on behalf of the countries of the region.

I should like to thank ILPES and CEPAL for the interest and dedication they have shown in organizing these courses in collaboration with UNICEF. I should also like to express my appreciation to the authorities and persons who have supported us in this activity which will, I think, have a valuable impact. They may rest assured that inasmuch as this course responds to the aims we have all set ourselves, UNICEF will continue and increase its support for the training of specialists in social planning and the improvement of social planning methods.

Some CEPAL publications

Las transformaciones rurales en América Latina: ¿Desarrollo social o marginación? "Cuadernos de la CEPAL" series, N.º 26, Santiago, Chile, 1979, 160 pages.

At the CEPAL session in Guatemala in 1977, a number of countries laid particular emphasis on the social problems of the agricultural sector, modernization and the influence of forms of land tenure on agricultural productivity and on other social and economic aspects. In keeping with that concern, this study deals primarily with the problems arising from the modernization of production and the social changes which have accompanied them.

The study is divided into two parts, the first containing an interpretation of rural change in Latin America, and the second an analysis of future scenarios and strategies of rural social development.

The interpretative section presents a historico-structural review of rural change, with special attention being paid to the trend towards an increasing concentration of resources, the growing importance of control over resources other than land tenure, the proportional rise in the use of seasonal labour and the correlative decline in permanent employment, the growing importance of the state support for "modern" enterprises, and the consequences of these and other trends for rural social development and the marginalization of various groups. The section begins with a definition of the essential features of the concepts "rural" and "urban" in the Latin American context. This is followed by an analysis of the main differences between the two environments, and then of the role of agribusiness in social change, concluding with a study of social relations, classes and movements. This order stems from the idea that the urban and rural environments can only be understood in their historical context, and that it is necessary to show, albeit sketchily, how the present situation has arisen and then consider present differences.

Part Two consists largely of a prospective analysis. The trends studied in the first section are projected into the future, providing hypothetical scenarios which, from the standpoint of social development, present challenges and problems which will have to be tackled by any strategy. Various recently-proposed strategies are considered in this light. In view of their great variety, and of the impossibility of analysing them all, only some of the major strategies are considered, such as that designed to strengthen subsistence agriculture.

La dimensión de la pobreza en América Latina, by Oscar Altimir. "Cuadernos de la CEPAL" series, N.º 27, Santiago, Chile, 1979, 93 pages.

This study sets out to make a quantitative estimate of poverty in the countries of Latin America. To this end, poverty lines are established for the main countries of the region, roughly representing purchasing power levels beneath which the basic needs of a household remain unsatisfied, so that the household may therefore be considered to be in a situation of absolute poverty.

These poverty lines are used in conjunction with the information available on income distribution to obtain preliminary estimates of the dimension of poverty in each of the countries and in the region as a whole. The dimension of poverty is evaluated both by the number of persons in a situation of poverty and by the size of the income deficit this implies. However, by drawing lines of absolute poverty on the basis of uniform criteria, the aim has also been to provide future studies with a means of identifying poverty situations and thus paving the way for an analysis of their causes, which can be undertaken by various research methods.

The conclusions of the study deserve serious consideration. Naturally, there is nothing new about the existence of mass poverty in Latin America; it is a long-standing and widely-recognized fact of life in the region. What is new, however, is the calculation that the striking economic growth achieved in recent years has not had a similar effect on the incomes of the poor, of whom there are very many. It has instead accentuated existing contrasts in the living conditions of the different population groups and thus made the continued existence of mass poverty both more visible and at the same time therefore more reprehensible.

Latin America's experience has led to profound scepticism regarding the traditional belief that economic growth alone would bring a solution to the serious, widespread problems of poverty, unfair income distribution, unemployment and underemployment which have existed and continue to exist in the region. According to the estimates given in the study, roughly 40% of the Latin American population were still living in conditions of poverty in about 1970.

In other words, the benefits of economic growth have not reached the different population groups in an equitable fashion. What is more, if present conditions remain unchanged, it can safely be predicted that the share of the poor groups in the benefits of future growth will remain absolutely inadequate.

Organización institucional para el control y manejo de la demanda externa. El caso chileno, by Rodolfo Hoffmann, "Cuadernos de la CEPAL" series, N.º 28, Santiago, Chile, 1979, 35 pages.

Following a global study of the general situation of foreign borrowing in the region in an earlier study (see C. Massad and R. Zahler, "Dos Estudios sobre Endeudamiento Externo", Cuadernos de la CEPAL N.º 19, Santiago, 1977) it was considered worthwhile to analyse the case of one country, looking at the methods and instruments used to regulate its process of foreign borrowing. This study describes and examines the main means currently used in Chile to manage the public and private external debt.

The study analyses the external debt situation from

various angles, thus providing a well-rounded view of the position in Chile. The first part is devoted to a study of the general state of foreign borrowing, the second to the outlines of foreign debt policy and the third to the instruments and means used in the management of public and private external borrowing.

It would be most useful to carry out similar studies for other countries of the region, since this would make it possible to compare the methods used by the Latin American countries to regulate their foreign borrowing processes and perhaps take advantage of the experience of the more advanced countries in this respect. This would open up a vast field for collaboration, since the issues to international payments and foreign borrowing are of great importance in almost all the countries of Latin America.

La política monetaria y el ajuste de la balanza de pagos: tres estudios. "Cuadernos de la CEPAL" series, N.º 29, Santiago, Chile, 1979, 61 pages.

This Cuaderno consists of three short essays. The first, "The demand for imported goods", presents a model for the identification of the economic variables with the greatest effect on the level of imports of goods, as well as for the evaluation of their empirical importance.

The second study, "Balance-of-payments adjustment, credit policy and external debt management", is aimed at identifying the lags in the adjustment of the balance of payments and its accounts in the face of monetary disequilibria. This issue is important from the standpoint of monetary, credit and balance-of-payments policy, since it is closely linked with the control of the money supply and the future course of foreign borrowing in line with different policy options, as well as the forecasting of changes in international reserves.

The third essay, "The monetary approach to the exchange rate", describes and analyses the main determinants of the exchange rate from a monetary standpoint, in order to highlight the importance of monetary variables in determining the rate of exchange.

Long-term trends and prospects of the development of Latin America. E/CEPAL/1076, mimeographed text, April 1979.

At a time when United Nations activities aimed towards defining the guidelines for a new international development strategy for the forthcoming decade are being stepped up on the technical and political levels, it is timely to complement CEPAL's analysis of the past and present situation¹ with information and projections which will help to underpin the discussions on this subject and ensure that

¹The economic and social development and external economic relations of Latin America (E/CEPAL/1061), a summary of which appears in *CEPAL Review* N.º 8 (August 1979).

the new strategy should be an effective programme of international action to promote the development of the peripheral countries, and also include issues and objectives that may be of special interest for Latin America.

The research in the economic, demographic and social fields presented in this document was undertaken using a number of interrelated models. This first stage was primarily devoted to work on projections—macroeconomic, sectoral, agricultural, world trade, demographic, income distribution and poverty—in order to establish in each case orders of magnitude for certain indicators regarding objectives, resources, problems and factors which affect the development field in question. The preliminary results make it possible to advance in the design of an integrated model to analyse the proposed scenarios at a less disaggregated level; the model will come into use at a later stage in the study.

For the time being two scenarios have been defined, and the projections of the different models have been organized around them: the first roughly corresponds to a prognosis of present trends, and the second to a modification of the external and internal situation which would enable the economies to become more dynamic.

The presentation of the two scenarios is followed by an individual account of the demographic, macroeconomic and sectoral and foreign trade projections, with a commentary on the results for the two scenarios, except in the case of the demographic projection.

Statistical Yearbook for Latin America, 1978, United Nations publication (Sales N.º: S./E.79.II.G.3.), Santiago, Chile, 1979, 471 pages.

In 1973 the *Statistical Bulletin for Latin America*, which appeared twice yearly, was replaced by the *Statistical Yearbook for Latin America*, the purpose of which is to summarize the statistical information most pertinent to the analysis of the economic and social situation and the progress of the countries of the region. To this end, the statistics used are those which are most complete, consistent and comparable from the regional standpoint.

These statistics are systematized by CEPAL so as to be able to serve as a framework of statistical data for the work of the secretariat and the various analytical activities dealing with the situation of Latin America. With the passage of time, this work of systematization has produced specific procedures for the preparation and presentation of statistics, which are considered to be particularly suited to the analytical goals pursued. Users wishing to obtain more detailed statistics on specific areas of interest, such as those prepared by the official institutions of the countries, should refer to the summaries of current international statistics which form part of the co-ordinated and interrelated set of periodic publications published by the United Nations and its specialized agencies.

This edition of the *Statistical Yearbook for Latin America* differs from previous issues in presentation and content. Part One includes derived indicators such as growth rates, shares and coefficients or proportions, which

provide a synthetic view of the situation in each area of interest, but whose use is more specific. This set of socio-economic indicators includes those used in the periodic regional appraisals of the International Development Strategy. Part Two contains, broadly speaking, the historical series in absolute number, which are therefore useful for a variety of purposes. It also includes new subjects in addition to those which traditionally appear in the *Yearbook*.

The closing date for the inclusion of statistics in this issue of the *Yearbook* was November 1978.

Manual de documentación naviera para los puertos de América Latina, OAS/CEPAL/ALAMAR, E/CEPAL/1060, mimeographed text, Santiago, Chile, 1979.

The excessive amount of paperwork involved in maritime transport and the consular formalities involved in shipping documentation constitute a problem which has for some years preoccupied various international intergovernmental and private organizations as well as some governments, groups of shippers and transport and trade facilitation committees in different regions of the world.

This Manual prepared by the OAS/CEPAL/ALAMAR Transport Programme, describes the requirements in terms of documentation and consular formalities to be satisfied by the ships engaged in international traffic in Latin American ports, in order to facilitate their operations and avoid delays, difficulties and even penalties which have an unfavourable impact on transport costs. It also seeks to foster the simplification and standardization of the basic documentation for the reception and despatch of ships, as established in the Mar del Plata Convention and Annex and LAFTA resolution 254 (IX). Finally, it is hoped that simply by describing the consular requirements still imposed on shipping by some countries of the region the Manual will encourage them to eliminate these formalities, which have already been removed by all the industrialized nations and do not apply to air traffic in those Latin American states themselves.

In the first stage the Manual contains information on the ports of Colombia, Chile, Ecuador, Peru, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

The data were collected in the field thanks to the co-operation of the maritime, ports and customs authorities in question and by the main shipping companies and agencies in those countries.

In a second stage, which it is hoped to complete in the course of 1979, data will be added on the remaining countries of South America and subsequently those of the Caribbean.

Planning Bulletin of the Latin American Institute for Economic and Social Planning (ILPES), N.º 4-5 (September 1978) and N.º 6 (December 1978).

Coinciding with its fifteen years of existence, the governments gave ILPES the function of supporting the operation of the System of Co-operation and Co-ordination among Planning Bodies of Latin America set up in 1977. This quarterly *Bulletin* is the organ of that System and is intended to serve as the means of communication among all the institutions and persons engaged in planning in Latin America.

These two issues of the *Bulletin* continue with the presentation of a series of studies on the state of planning in Latin American countries, with a view to fostering the exchange of experience and making known the studies produced by planning bodies in the region.

It is hoped that this material will be of use to Latin American planners and also to universities and training and research centres connected with planning, since it represents up-to-date information on the experience of countries in the use of planning as a tool of government.

Bulletin N.º 4-5 contains the following articles: "Social development and planning in Peru"; "Planning in Paraguay"; "System, processes and instruments of planning in Uruguay"; "The planning of economic and social development in Guatemala"; "Regional planning in Bolivia"; "Basic information on the organization and operation of the National Planning System of Peru"; and "The state of planning in Bolivia".

The contents of *Bulletin* N.º 6 are: "Regional planning in Chile"; "Ecuador: organization and responsibilities of the Economic Planning and Co-ordination Board"; and "The planning system in Honduras".

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