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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.
Reinventing development: utopias devised by committees and seeds of change in the real world

Marshall Wolfe*

International normative declarations on development combine two types of demands that derive from different views of human societies and their future. One type envisages equality for Third World countries within a reformed world order retaining sources of dynamism not very different from the present. The other type of demand, for 'another development', envisages equality for human beings within a world order governed by radically different social relationships, values and incentives. The mixing of these two types of demands, and the failure to make explicit their different theoretical and valorative premisses, while unavoidable in international forums seeking consensus, weakens the convincingness of the declaration either as packages of demands negotiable between governments or as mobilizing myths seeking to replace the waning myth of economic development.

The present paper prefers the values underlying the demands for 'another development', but questions whether these values are going to be realized harmoniously and predictably once committees of thinkers hit on the correct combination of planning and exhortation. The paper then explores the mutations or 'seeds of change' that can be detected in different kinds of central and peripheral national societies in relation to the real prospects for 'another development'. It concludes that the mutations point to a highly indeterminate future, in which the capacity of the dominant forces in the central countries to exercise hegemony for coherent purposes will probably decline. The future of Latin America is thus not predeterm ined by the region's present pattern of semi-development nor its insertion into the international order. The basic propositions of 'another development' may acquire greater realism and political viability in the hands of new social forces.

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I

A new egalitarian world order for nation-States or a new egalitarian world order for human beings?

In the extraordinary recent flowering of normative declarations on development one can distinguish two main strands. One strand consists of relatively concrete demands for egalitarian reforms in the international economic order. The other strand consists of relatively diffuse appeals for 'unified development', 'integral development' or 'another development' within countries, supported by a worldwide transformation of values and priorities. At first sight, the two strands complement each other, but the manner of their juxtaposition within the declarations suggests a series of compromises between quite different views of human societies and their 'development', a new phase in the long-continued efforts to define this elusive concept, with the holders of different positions contributing additional utopian-normative elements and seeking common ground with each other under the impact of the multifaceted international crisis of the mid-1970s. Although the dichotomy between 'developed' countries and the Third World dominates the declarations, the differences in the preoccupations of their architects do not coincide with this dividing line.

The former demands envisage the achievement of equality by the Third World countries or by their economic systems within an international order continuing to derive its dynamism from production for export and from international flows of investment and technological innovation. They suppose that 'development' for the Third

1The production of declarations and reports along these lines gathered momentum in 1974 and reached a peak in 1975. Since 1975, the flow has continued at a somewhat slower rate, and with considerable repetition of propositions and demands.

2For a discussion of earlier stages of this quest, see Marshall Wolfe, El desarrollo esquivo: Exploraciones en la política social y la realidad sociopolítica, Mexico, D.F., Fondo de Cultura Económica, 1976.
World countries can continue to mean what it has meant for the countries now rich and industrialized—mass production and mass consumption continually stimulating each other to new heights—but with the cyclical crises, struggles for markets, exploitation of the weak by the strong, ravaging of the human environment, and other disbenefits of such development tamed by some combination of global planning, bargaining, and good will.

It may be questioned whether an international economic order reformed by intergovernmental agreements while retaining central mechanisms and motivations of the present order can really function in this way, or whether the forces that are likely to dominate during the foreseeable future will really be disposed to make the experiment. At least, however, these are demands on which governments can base strategies and seek united action among themselves. They respond to a supposition that countries have common and internally harmonious interests voiced by their governments; that overcoming the poverty of a country and gaining it an equal voice in the international order are equivalent to overcoming the poverty of its people and gaining them an equal voice. Such demands do not really require the conscious intervention of the masses of a national population, who figure, in their demonstrated poverty, as justifications for the demands of their governments, as performers of economic roles, and as eventual recipients of the benefits supposed to flow from the new order.

The appeals for 'integral development' or 'another development' within countries raise problems of a quite different nature, that governments are hardly in a position to tackle, and that even the non-official intellectuals offering themselves as spokesmen for the Third World commonly evade when they seek consensus in declarations. The posing of equality and elimination of poverty as objectives of development is not new, but the linking of these objectives with autonomous participation by the masses in the making and carrying out of developmental decisions, with the curbing of superfluous consumption and husbanding of the human environmental patrimony for future generations, and with the transformation of societal values makes up a formidable agenda.

The indispensable precondition for 'another development', in fact, is a worldwide conversion or change of heart, involving all the social forces that have a share of power along with the groups hitherto voiceless. The prizes for which classes and interest-groups have contended since the down of the capitalist order then become almost irrelevant. The mass of consumers in the rich countries and the rich in the poor countries must learn to live austere-ly. Political leaders, entrepreneurs, scientific-technological innovators, and the military must renounce the struggle for power and prestige in favour of co-operation and fostering of popular initiative. The centralized State with its bureaucratic and coercive mechanisms must give way to direct democracy and self-management at the level of the community and the enterprise. The groups controlling the transnational corporations must set them objectives of job creation and production of goods meeting basic human needs rather than maximization of profits. The impoverished masses must moderate their demands to what the national variant of 'another development' can afford. The declarations insist that the first steps in this direction must be taken immediately; human needs cannot wait. Their prescriptions for the future are in that what is wanted is something quite different from previous concepts of development, not only in welfare priorities but also in an open-ended experimental pursuit of equality, creativity, and self-reliance. 'Integral development', 'unified development', and similar terms that came into vogue toward the end of the 1960s convey the supposition that the pursuit can be planned and subjected to universalist norms.
all-or-nothing terms; humanity is either to be saved or to be damned in its totality.4

Sometimes the declarations refer to the need for 'political will' and try to frighten the nationally and internationally dominant forces with warnings of catastrophe if they do not change their ways. Sometimes they shrink the enormous problems of planning for societal transformation into problems of devising correct methodologies and indicators of progress —problems whose solution can be entrusted to international experts and research projects. Even the declarations that try hardest to come to grips with the problems of power, values and national diversity— notably the 1975 Dag Hammarskjöld Report —continually fall back on the passive voice in their recommendations through inability to identify a societal deus ex machina who might convert aspirations into action.

In fact, the proposals combining norms for economic equality between countries with norms for 'integral development' or 'another development' have the earmarks of concrete utopias devised by committees. They are concrete in their aspiration to construct blueprints of an attainable future. They are utopian in the immediatism and universalism of their formulations. Their origin in committees and forums that intentionally bring together representatives of different regions, different disciplines and different ideologies bars them from any serious effort to subordinate their conclusions to a coherent theory of societal change.5 It conduces to an over-generous inclusion of objectives and prescriptions strongly supported by some participants and not seriously objectionable to the others and, more important, to an evasion of issues on which the views of participants or the organisms to which they belong are irreconcilably different—in particular, whether 'another development' is to come about by the conversion of the mighty or their overthrow, and whether the basic supposition of 'economic development', that increases in production of goods can and must outpace population growth throughout the foreseeable future, remains valid.

Under these constraints, the new proposals become attempts to devise a convincing new myth without altogether alienating the governmental devotees of the waning myth, at a time when the requirements for conviction and consensus are much more complex than the simple faith of the 1950s that correct economic policies will eventually enable all peoples to achieve the level of consumption of the industrialized countries.6

While the appeals for 'another development' now enter to a surprising degree into

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4 According to the Report of the 1975 Special Task Force Meeting of the Club of Rome, for example, the complete development of the potentials of all men is necessary if inequalities are to be smoothed out and if the aim is to give everyone the chance of a healthy and self-respecting life. Strategies, policies and planning procedures for national and global development must be subordinated to these ends. (The italics are the present author's.) Taken literally, the first sentence is tautological. Taken as a mandate to planners it is staggering.

5 In the search for a scheme of global rationality, we are severely handicapped by the lack of an integrative theory—or of rival integrative theories—which would be accepted by wide sections of the intelligentsia and the centres of power, and which would explain the more significant aspects of the behaviour of society, provide a minimum capacity to predict, and afford a reliable basis for the formulation of rules and the development of institutions. The erosion, or disintegration, of the major paradigms which had been used to elucidate as well as guide national development and international relations is an important factor in our present uncertainties.” (Philippe de Seynes, "The 'Futures' Debate in the United Nations", CEPAL Review, N° 3, First half of 1977, p. 13.)

6 Myths, according to the Brazilian economist Celso Furtado, are like lamps that illuminate the field of perception of the social scientist, enabling him to see some problems clearly and leaving him in the dark as to others, while at the same time they afford him peace of mind, since the value judgements he makes are in his sight a reflection of objective reality. We are now, Furtado later goes on to say, irrefutably aware that the peripheral economies will never be developed, in the sense of resembling the economies that at present form the centre of the capitalist system. But how can it be denied that this idea has been of great use in mobilizing
inter-governmental declarations and while they are presented as demands of the dispossessed majority of the world's people they are, to a much greater extent than the accompanying demands for economic equality between nation-states, the brain children of circles of intellectuals and reformers meeting in differing combinations in one forum after another. They lack the dynamism of social movements fighting to advance the interests of their members and the discipline of coherent ideologies or theories of social change. In some versions, 'another development' serves as a euphemism for 'socialist development', while evading identification with current socialist models and strategies. The immense majority of the world's poor knows nothing of them nor of the international forums that endorse them, in spite of the reiterated attribution of authorship to these same poor. The world's middle classes hear just enough to make them uneasy. While significant fractions of these middle classes may feel a certain guilt and may even harbour a conviction that 'something must be done', the self-defensive reactions of the bulk of them to the crises that affect them directly indicate the unlikelihood of their voluntarily making sacrifices of the magnitude called for by 'another development'. The world's rich and powerful keep their own counsel, or manoeuvre to make the proposals innocuous by embracing them.

When one examines the writings since the 1960s of the participants in the present elaboration of prescriptions for 'another development', one finds that the criticisms that can be levelled at their collective declarations have been made by many of them as individuals, naturally with differing emphases and from different theoretical approaches. The international and national relationships of domination and exploitation, the gap between pretensions and performance in international co-operation, the inhibitions on decision-making at the national level, the 'soft state', the pervasively corrupt State, bureaucratic inertia, the delusions of technocratic planning, the distortions of formal education, the forces making for mystification and ambiguity in policies are in full view.

In other words, their diagnoses show: (i) a low degree of governmental rationality and capacity to plan confronting complex and continually changing challenges; (ii) adherence by the dominant forces in most national societies to elitist values, implying the enjoyment of privileges precisely because they are privileges outside the reach of the majority, and satisfaction with 'nature's plan, that they shall take who have the power, and they shall keep who can'; (iii) susceptibility among the masses to mobilization and united effort in support of traditional parochial causes —national prestige, territorial aggrandizement, religious and ethnic quarrels. Within each nation-state, large or small, simple or complex in its social and economic structures, political contests are under way for a bewilderingly varied assortment of prizes that absorb the participants to the practical exclusion of the great question posed by 'another development': that of human survival on terms making survival humanly meaningful.

Such diagnoses have left some of their authors profoundly pessimistic concerning the possibility of future realization of their own democratic and humanitarian values. Others, on the basis of their evaluations of present power structures and the character-
istics of the classes benefiting from or exploited under them, opt reluctantly for essentially reformist approaches requiring enlightenment of the national elites and the dominant forces in the world centres, and assignation of leadership to strong States conceivably capable of representing the long-term interests of the national society. Still others conclude that a revolutionary democratization of societies throughout the world accompanying a transformation of values and of human nature itself must be possible because it is necessary. Still others try to construct workable blueprints for the transformation of their own societies and to demonstrate the non-viability of other paths to the future, eschewing universalism and relying on the force of rational demonstration to recommend the blueprints to national elites or political forces able to take power and apply them.

Even the more optimistic explorers seem from time to time to be floundering in a bog as they try to move from the multiform absurdities and injustices of present human relationships and public actions to some firm path leading to national and international orders capable of giving priority to satisfaction of the basic needs of all human beings. Overt rejection of this priority has been muted to a degree that would have been unthinkable a few decades ago. The proliferation of declarations and 'plans of action' demonstrates a consensus of respectable opinion: the world order is in crisis and must be transformed. But this consensus has the yieldingness of the bog rather than the firmness of a path supporting a vigorous advance in any one direction.

Economists have retained the central role in shaping the more recent proposals for 'another development', as well as the proposals for a new international economic order, which they (or other economists) held in elaborating the earlier myth of economic development. Certain economists have, in fact, taken the lead in the chorus of criticisms of the narrowness of the economic vision focussed on accumulation and investment for acceleration of growth in production; in some cases, abjuring their own earlier prescriptions. One of them sets forth the reasons for their continuing central position as follows:

"In line with traditions that are now more than two centuries old, we economists have this slightly paranoid but socially useful bent of mind; we naturally accept the responsibility for taking a broad view of a whole country, and indeed of the whole world, and for thinking in dynamic terms of national and international policies. Place any economist in the capital city of an underdeveloped country and give him the necessary assistance and he will in no time make a plan. In this regard we are unique among the social scientists. No sociologist, psychologist or anthropologist would ever think of trying to do such a thing."^7

This predisposition of economists meets the need of governments, international organizations and sectors of public opinion that have become sensitized to world crises to believe in the possibility of plannable, harmonious, universally applicable solutions. If the previous prescriptions for development have not worked satisfactorily, new and 'more comprehensive' prescriptions must be needed.

Since the early stages of diagnoses and planning for 'economic development', the dominant economists have invited the participation of other social scientists and specialists in social policies, but naturally on their own terms. The latter are now closer to the centre of developmental thinking than before, since the more innovative economists as well as political leaders have convinced themselves that the difficulties in the way of 'another development' are not primarily economic. Sociologists, anthropol-

ogists, political scientists and psychologists, however, cannot be much more at home in their new responsibilities than in the previous role assigned to them by economists of diagnosing and prescribing for 'social obstacles' to 'economic development'. 'Modernization', the main general concept advanced by a good many of these other social scientists to complement 'economic development', has turned out to be as elusive and ambiguous in relation to human welfare as development itself. 'Another development' calls for 'another modernization'. Social science theories that look to class conflict as the motor of societal change are still less assimilable to the demand for comprehensive plans governed by the norms of 'another development'. Whether the observer's attention centres on the international order, national political structures, classes, interest-groups, communities, families, or individuals whose responses are conditioned by these wider circles, he sees changes under way which will undoubtedly incorporate influences from the campaigns for egalitarian, basic needs-oriented and environment-oriented styles of development and which will influence these campaigns in return, but which are not susceptible to planning by any identifiable agents. The demand for social and political prescriptions for the management of these changes leads back to contradictions in which development policies up to the present have recurrently been entangled whenever they have ventured beyond a narrowly economic focus: standardized spontaneity, popular initiative channelled towards targets imposed from above, cooperative action expected between groups with conflicts of interests that their members perceive.

Social scientists in the Third World are somewhat more disposed than their counterparts in the 'central' countries to view the State as a coherent entity rather than an aggregation of bureaucracies and interest-groups, but they are even less inclined to attribute to the States now on the stage the degree of autonomy and benevolence needed if they are to lead the way to 'another development'. In most cases, the State, whatever aspirations its technobureaucracy might harbour, would be the agent of forces incompatible with any systematic move in such a direction.

Assignment to the State of the task of constructing 'another development' (or, in another current formulation, 'exercising the right to choose a national style of development') thus in the real world may not bring about much more than an array of Potemkin villages masking the pursuit of group interests by the forces dominating the State. The greater the apparent autonomy of the State apparatus, the greater the opportunities for counterfeiting of achievements, concealment of failures, and proliferation of corrupt practices and special privileges among the 'servants' of the State.

Nor are the prospects much more promising for a withering away of the State through the accession to power of a social class destined to do away with exploitation, or through the generalized enlightenment of the population up to the point of achieving ability to manage its own affairs co-operatively and non-bureaucratically, through direct democracy. The present boom in construction of concrete utopias, in fact, has followed a fading of the faith that flourished in important proportions of different social classes in the industrialized countries from

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8In a 1972 conference of Latin American and United States social scientists it is striking that the former generally attribute coherent purposes to the State, whether as 'the executive committee of the capitalist class' or as a semi-autonomous actor, while the latter see 'bureaucratic policy-making', in which components of the State apparatus can, up to a point, pursue different objectives in alliance with different interest-groups in the society (e.g., the 'military-industrial complex' and sectoral government agencies linked to organized labour, organized farmers, etc.), with an approach to unity to be expected only in the presence of a menace perceived as extraordinarily threatening to the interests of the whole society. See Julio Cotler and Richard R. Fagen, Ed., Latin America and the United States: The Changing Political Realities, Stanford University Press, 1974. Fernando Henrique Cardoso has diagnosed the Brazilian State in terms rather similar to the second view, in Autoritarismo e Democratização, Rio de Janeiro, Paz e Terra, 1975, especially p. 182.
the nineteenth century up to the 1940s: the faith that the Good Society would be achieved shortly after the coming to power of the proletariat or of a democratic-socialist intellectual élite. During the 1950s various observers of social change evaluated this fading away optimistically in terms of the 'end of ideology' and the clearing of the way for consensus on practical and incremental reforms. At present, even in the national societies in which material conditions, political culture, and discontent with the capitalist-consumerist style of development might seem most propitious, one now finds a predominant sense of the complexity and ambiguity of progress, in which each achievement brings new problems without fully overcoming the old ones, in which all the conceivable paths to a better future are round-about, with the pitfalls along the way easier to foresee than the happy ending.

There seems to be no plausible alternative to the conclusion that initiatives for deliberate modification of styles of development will have to continue to struggle through the bog of cross-purposes, ritual activities, evasions, and resistances, even if the preconditions for societal transformation become as favourable as can realistically be hoped for. Nor is it likely that whatever transformations occur will bring national societies any closer to uniformity, for better or worse. Some national societies may enhance their strength within the world order without enhancing the well-being of their members; others may do both; still others, unfortunately, may do neither. Some classes and groups within countries will lose present advantages, will be forced to change their ways of livelihood, will be left in or reduced to poverty whether or not the majority gains and whether or not the overall trend is toward equality. There can be no guarantee to any of the societal actors that their struggles and sacrifices will have results that can be defined in advance. In spite of the internationalization of 'plans of action', the transformation will continue to take place within the boundaries of nation-

States and States whose dominant forces are trying to make them into nations. In each State, the interplay of ideologies, strategies, power relationships, pressures and conflicts only tenuously related to 'development' will point to different possible outcomes. One of the most striking contradictions of the present situation is the discrediting of the nation-State as incapable of coping with the challenges it faces; and at the same time the renewed insistence on self-reliance and the right of the nation-State to choose its style of development free of external pressures; together with the continued proliferation of new States whose capacity for self-determination is much more questionable than that of the States whose leaders are convinced that integration in larger units is the only viable option.

Such explorations of the future as the two reports to the Club of Rome9 insist that piecemeal, intuitive, or common-sense tactics to cope with the crises of the future will be worse than ineffective; they will contribute to the disasters they are supposed to ward off. If this is correct and if one can see no prospect for responses that are other than piecemeal and mutually contradictory, what then? Are the concrete utopias devised by committees with their universalism and immediatism, their hospitality to all kinds of worthy causes, anything more than another ritual recognition that the situation is desperate?

One might vary the exhortation common to these utopias, to the effect that 'humanity must choose' between paths leading to survival and destruction, and urge their intellectual fathers to choose between the different conceptions of the human future that are now combined in their declarations. Do they envisage that a correct combination

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of 'practical', 'concrete' reforms negotiable between present governments can set humanity on the path to what they mean by 'development'? Do they aim at images of the future that can inspire and mobilize social forces for a transformation very different from the optimal results of reforms that are now negotiable?

The mixture of propositions based on different theories and aimed at different publics weakens the convincingness of the declarations both as negotiable packages of demands and as mobilizing myths. While individuals and political movements referring their actions back to a coherent theory can choose, however, it is of the essence of the debate over future international and national orders that the participants must fall back on formulas affirming that humanity can have its cake and eat it, that equality for nation-States within a world order requiring economic growth dynamized by manipulated consumption demands and armaments expenditures can be reconciled with equality for human being within societies requiring radically different incentives and human relationships.

The international declarations and plans of action, in fact, reflect a real hybridization of policies, deriving from different conceptions of human needs and different conceptions of the economic Kingdom of Necessity, that is shaping the evolution of national societies and the international order itself. In the national societies most wedded to the necessity of rapid economic growth governed by the market, one finds the dynamism of this process increasingly entangled with elaborate and costly public services and regulations stemming from egalitarian, welfare and environmental preoccupations and from the power of interest groups disposed to tolerate the functioning of the system only to the extent that it incorporates their demands. In the United States as well as Europe these preoccupations and pressures are changing the functioning of the societies in ways that would have been inconceivable a few years ago, without, however, displacing the private stimulation of consumption and the public allocations of resources supposed to maintain the previous dynamism.

At the same time, the increasing numbers of national societies whose dominant forces strive or pretend to strive for socialist-egalitarian styles of development with completely different sources of dynamism remain enthralled by growth for the sake of growth—or for the sake of national power—and are continually tempted or pressed to the reintroduction of market mechanisms, consumerist incentives, and privileged lifestyles for the higher bureaucratic and military élites.

At the international level the hybridization of policies deriving from the two conceptions of development generates further contradictions, or at least a juxtaposition of objectives incompatible without a comprehensive rationality and global planning capacity that are not in sight. The one approach requires that the 'rich' countries continue to expand their purchases of raw materials from the 'poor' countries, at high and stable prices, and welcome imports of manufactures. The other approach requires that the 'rich' countries use raw materials more sparingly and leave a larger share for direct meeting of the needs of the 'poor' countries; the latter should also expand their manufactures primarily to meet basic needs of their own people.

The one approach implies that the poor countries and the rich should become even more interdependent. The other implies that countries in both groups should become more self-reliant and views the resulting constriction of certain lines of economic growth as a gain rather than a disaster.10 The

10See Lucio Geller, "Notas sobre Delinking y Relinking", Seminario-Foro del Tercer Mundo sobre Auto-Apoyo Colectivo, Lima, February 1976, for a relevant observation to the following effect: Everything that contributes to a break-up of the imperialist style of integration will point the way to self-reliance on the part of peripheral and central countries alike. It is needless to stress that self-reliance is not self-sufficiency; but it...
one approach implies that tourists should visit the poor countries in large numbers and spend freely. The other implies that visitors should live austerely and place their skills at the service of the people they visit. Under the one approach, the transnational enterprises, properly watched and regulated but retaining their present profit incentives, are an indispensable instrument of development. Under the other, the transnationals can be tolerated only on condition of a transformation of their incentives and their functioning that would practically convert them into philanthropic foundations.

The centre-periphery relationships of dominance and dependency and the national styles of development or underdevelopment deriving from them have revealed too many anomalies and dangers to be able to mobilize the indispensable minimum of consensus, but the alternatives must continue to contend with the powerful momentum of what has been done and with their own conceptual and practical weaknesses. The central countries may well reduce their rates of economic growth over the long term as the Bariloche Foundation's Latin American World Model, along with other guides to the future, demands, not because of altruism, but partly because of ecological constraints, partly because of inability to find adequate substitutes for sources of economic dynamism—armaments and the automobile—that for one reason or another have to be curbed, and partly because of growing dissension over life styles and national objectives.

It is unlikely that under such conditions their dominant forces, trying to cope with severe internal tensions, could or would pay much attention to the corollary demand that they compensate the Third World for past exploitation. Even if lower growth rates derive from harmonious changes in values, from popular preferences to work less and live more simply, the producers would hardly go on striving to produce goods to benefit the rest of the world, and they might learn to do without many non-essential goods they now buy from the Third World. An end to the armaments race, by itself, would render obsolete the oft-repeated projections demonstrating the central countries' dependence on imports of minerals from the Third World. The dominant forces in the central countries are already beginning to take up the arguments for Third World self-reliance as a defence against the claims made on them by the advocates of a New International Economic Order.

Behind the present proliferation of utopias devised by committees lurks a recurrent fear: however irrational and unjust the combinations of carrots and sticks by which the modern capitalist and socialist economic systems have kept human beings innovating, producing, and squabbling over distribution, do not the alternatives all lead to bureaucratic compulsion and eventual stagnation?

From the point of view of the present exploration, the values and suppositions underlying the demand for 'another development' are to be preferred to those underlying the demand for economic equality between nation-States. It does not follow that 'another development' will emerge harmoniously and predictably once the men of good will in the international forums hit upon the correct combination of planning and exhortation. The following passages translated from a recent essay by Alain Touraine point to the path to be followed in the next stage of this exploration:

"...A study conducted in terms of crisis leads up to recourse to a rescue plan for the planet envisaged as a vast social system, at the core of which a central
authority, or, more simply, a coherent will, could propose reasonable solutions, beneficial, that is, for mankind as a whole, and at the same time technically feasible. When people shout 'Fire!', it means that they expect the firemen to come... Conversely, to speak of mutation brings to the fore cultural changes and changes in social relations, particularly power relations; and this is meaningful only within real social systems, i.e., systems defined by institutions and powers.

"...The time has come to leave behind these interpretations of current change in terms of crisis. For if we were merely living through a crisis, the sole solution would be the emergence of an integrating force from the collectivity that the crisis is affecting... Which could only lead—and this is the principal ideological function of the concept of crisis today— to the strengthening of a new ruling élite, acting at once on behalf of rationality and in defence of the entire collectivity. It may be thought that this is how things should be; or, on the contrary, a different style of change may be desired.

"But the first essential is to recognize that the idea of crisis forms part of the ideology of power: it implies a reorganization of society at the top... To speak of crisis is to adopt the standpoint of power; to speak of mutation implies studying the formation of a new cultural field, of new social relations and new social conflicts, which direct attention as much towards the appearance of new popular movements as towards the emergence of new forms of power."¹¹

Let us then look at the mutations or 'seeds of change' that can be detected in different kinds of 'central' and 'peripheral' national societies today, supposing that the firemen of a new international order are not about to arrive to resolve a crisis, but that the examination of seeds of change may tell us something about the prospects for a future susceptible to modification by movements oriented by the egalitarian and humanitarian values inspiring 'another development'.

II

Seeds of change in different types of national societies

1. Hypotheses

This section of the present paper will consist of an annotated listing of phenomena now visible in different types of national societies that throw light on future prospects for the international order and for 'another development'. The listing does not pretend to comprehensiveness. Its main purpose is to demonstrate the diversity and apparent indeterminateness of present trends and the inadequacy of current stereotypes concerning the roles and the potential responsiveness to utopian-normative prescriptions of the different types of societies.¹² The phenomena are labelled 'seeds of change' to suggest that their present visibility need not correspond to their future importance. Not all the 'seeds' will germinate and some of


¹²This section aspires to complement without duplicating the profound analysis carried out by José Medina Echavarría in three recent papers: "Latin America in the possible scenarios of détente", CEPAL
them will grow into feeble or purely ornamental plants. Intellectual fashions, personal values and preferences inevitably influence judgements concerning the future prospects of the 'seeds'. The listing unavoidably leaves out of account the historical dimension of the seeds of change and the influence on their potency of long-standing national projects or aspirations. The general hypotheses informing the presentation, already suggested in the previous section, are the following:

(a) The two dichotomies that have governed international discourse on 'development' — (i) between 'developed' (central, industrialized, rich, imperialist) countries and 'developing' (peripheral, poor, dependent, exploited, non-industrialized) countries; (ii) between 'capitalist' (market economy) and 'socialist' (centrally planned) countries— never entirely satisfactory simplifications of reality, are becoming more inadequate, not because of a generalized 'convergence' between countries on the two sides of either dichotomy, but because of the emergence of an increasing number of intermediate, anomalous patterns. A few of the 'developing' countries have become wealthier than the developed according to the conventional indicator of GNP per capita. Others have become highly industrialized and more wedded to the unrestricted operation of market forces than are most of the 'developed' countries today. At the same time, traits are coming to the fore in the 'developed' countries that are incongruous with previously accepted images of 'market economy' or 'centrally planned economy', including traits previously singled out by the spokesmen of the developed world as characteristic of 'under-development'.

(b) In the different groups of countries—whether classified by region, income level, political system, or otherwise—internal social, cultural and political changes are interacting with the more strictly 'economic' processes and policies (in production, technology, marketing, finance, etc.) and with foreign policy tactics in pursuit of governmental views of national interests. The former changes seem to be exceedingly self-contradictory and ambiguous; no clear dominant trend is visible. The internal changes characteristic of each group of countries react on the internal changes of the rest through imposition, borrowing and deliberate rejection, further complicating the national patterns. They impose constraints on the capacity of governments in all types of national societies to adopt and apply coherent policies vis-à-vis the rest of the world.

(c) The proliferating discussion of norms for a new international economic order and for ideal styles of development at the national level coincides with a dearth of intellectually compelling theories of social change, of dynamic political leadership, and of wide popular support for any one development strategy. This applies to practically all countries at present, whatever their income level, their political-economic system, or their dominant ideology. It is a moot question whether the shortcomings of leadership should be attributed to the nature of present challenges and the erosion of confidence in the conventional wisdom on development and modernization, or vice versa. In any case, the continuing elaboration of all-inclusive normative declarations and 'plans of action' is in part a ritual substitute for real capacity to cope with change. Activities of this kind can be expected to exert some real influence on the directions of change and the ways in which men interpret it, but, filtered through structures exerting greater resistance to some actions than to others and transforming the meaning of certain actions, they may well have results as far from the intentions of their present sponsors as have all the great mobilizing myths of history.

(d) The guidelines to 'another development' vacillate between technobureaucratic
solutions—a centrally-planned world society corresponding to the image of 'spaceship earth'—and participationist solutions—local self-management, subordination of 'development' to local cultures and values, the withering away of the State—corresponding to Touraine's distinction between 'crisis' and 'mutation' approaches. A comparable ambiguity can be seen in the seeds of change that are going to be discussed. For better or for worse, a continuing tension between the two approaches to the organization of society seems more probable than the triumph of a technobureaucratic utopia or a participationist utopia.

(e) In such a listing of the seeds of change it may be permissible although not entirely satisfactory to leave in the background the framework of economic relationships and power politics which has received more attention in the debate over new international orders than the questions to be discussed in this section. Most of the problems and changes in attitudes to be discussed have emerged or become more pronounced during a long period of economic growth and national and international political patterns which, although conflictive enough, have been stable in comparison with the preceding decades of depression and world war. Their future relevance depends only in part on whether the central countries recover high and stable growth rates and whether their relations with the rest of the world become more co-operative or more conflictive. The terms of the listing, however, do reflect an expectation that the future will be a mixed one, of alternating growth generating inflation and recessions pushing up unemployment; of conflicts subsiding in some areas and springing up in others; of concessions by the centre to the periphery that the latter will continue to identify as too little and too late. The governments may well continue to play power games not too different from those of the past, but with their capacity to mobilize internal support for such games dwindling or precarious, and their attention continually diverted by domestic contradictions. The degree and kind of attention that the leaders of the central countries can pay to the rest of the world may thus encounter narrower bounds, whatever the demands emanating from the latter and whatever the threats to hegemony presented by political changes in the periphery.

(f) The industrialized countries with capitalist or mixed economic systems and electorally democratic political régimes can be divided roughly into several sub-groups: the United States, set apart by the size of its economy, the world permeation of its lifestyle, and the reactions deriving from its eroding world hegemony; the large Western European States; the smaller Northern and Western European States; the industrialized Commonwealth countries of North America and Oceania; Japan; and the Mediterranean 'Latin' countries. Similar seeds of change can be identified in all these sub-groupings, but in widely differing combinations. The following discussion will focus on phenomena that are general but particularly characteristic of the United States, and will then comment on the other sub-groupings. The socialist countries, excluding the more recent non-industrialized Third World recruits, fall into two sub-groups: U.S.S.R. and its East European associates, on the one hand, and China, on the other. In the Third World a grouping by geographical regions coincides in the main with other relevant traits, although not with the increasingly important but persistently elusive distinction between national societies whose dominant forces identify them as 'socialist' and those whose dominant forces prefer other identifications. The discussion will lead to a consideration of the implications for Latin America, as a region of dependent semi-development, of its openness to the whole range of seeds of change identifiable in the rest of the world.

2. The industrialized "market-economy" countries

(a) Disillusionment with the capacity of the
welfare State to 'solve problems' and with the capacity of political parties to change the conduct of the State for the better has been on the increase since the 1960s. Resentment of high taxes, bureaucratic controls and attempts by the State to regulate behaviour for social goals generates sporadic political backlashes and passive resistance, while the occasions for such resentment continue to mount under the pressures to be described below. Rising incomes and consumption over several decades have cushioned social conflict but have not left the State in a stronger position to set national priorities and assign resources once these trends are interrupted. It becomes publicly evident that a wide range of policies supposedly devoted to national defence or human welfare have really become governed by objectives of propping up the economic system or fortifying the position of public functionaries, but that the range of policies accessible to the State can neither stop inflation nor secure full employment. The pursuit of semi-autonomous policies and pressure group tactics by military and intelligence establishments, by sectoral bureaucracies, and by large corporations in the 'planning system' (in J. K. Galbraith's term) becomes more widely known and resented.13 Continual exposures through the mass media of corruption and illegal manipulations reinforce other sources of distrust of the State and politicians.

(b) Warnings of many kinds that previous patterns of growth in incomes and consumption will not be viable in the future, supported by visible disbenefits of these patterns, intensify public insecurity. The most influential of these warnings up to the present have referred to ecological and demographic limits to growth. These warnings have been accompanied by prescriptions that suppose a high level of State capacity to plan and of public capacity to change life-styles through some combination of mass conversion and technocratic regulation. However, these very capacities have quickly come under question in diagnoses of the social and political limits to growth. The latter diagnoses, while their direct influence is relatively restricted, give intellectual justification for the popular distrust of the welfare State.14

(c) Middle- and working-class life-styles and consumption goals begin to change, although the standards of the high-production, high-consumption society remain predominant. The unforeseen consequences of mass access to what have recently been labelled 'positional goods' generate simultaneous disillusionment with these goods and more frantic striving for incomes guaranteeing access to goods still conferring special advantages.15 The influence of the 'work

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13 For example, the dominance of the 'planning system' of large corporations in the United States over the 'market system' in the rest of the economy, the symbiosis of this private planning system with the public bureaucracy, and the relative impoverishment and exploitation of the rest of the society, as interpreted by Galbraith, have much in common with the interpretations of dualistic or structurally heterogeneous development in Latin America. See John Kenneth Galbraith, Economics and the Public Purpose, Boston, Houghton, Mifflin Co., 1973.

14 "... the most significant limits to growth ... are limits set by the already overstrained capacity of human beings to conceive, design, manage, support and adapt to extremely complex systems of human interdependence. In short, it is the political limits that are likely to constrain the continuity of physical growth well ahead of all other factors." (Rufus E. Miles, Jr., Awakening from the American Dream: The Social and Political Limits to Growth, New York, Universe Books, 1976, p. 2.) "The core of the problem is that the market provides a full range of choice between alternative piecemeal, discrete, marginal adjustments, but no facility for choice between alternative States... By contrast, the political mechanism, through which preferences between alternative States could in principle be posed, has not yet developed a satisfactory system for such decision... Consequently, the capacity of both the market and the political system to meet expectations tends to be overestimated. They cannot deliver on what the public takes to be their promise." (Fred Hirsch, Social Limits to Growth: A Twentieth Century Fund Study, Cambridge, Mass., Harvard University Press, 1976, p. 18.)

15 'Positional goods' are goods whose utility to the individual is negatively affected by increases in the
ethic' and the prestige of durable consumer goods begin to decline. Leisure, vacation travel, sexual contacts, and a wide range of 'do-it-yourself' activities become more highly valued and socially acceptable. Alternative life-styles, some of them approximating to the ideals of 'another development', take shape among minorities; an apparent widening of the range of choice contradicts the bureaucratization of the societies. Publications that, in many variants, predict doom for consumerism, argue for alternatives, and offer guidelines, reach a broad public. At the same time, in certain medium-sized high-income countries in which the welfare State has reached its closest approximation to satisfaction of material needs and provision of abundant leisure to the whole population, the apathetic response of the majority to the apparent opportunities for creative life-styles troubles social scientists and political ideologists.

(d) Aggressively egalitarian and libertarian movements emerge among racial and linguistic minorities, women, youth, homosexuals, etc. The movements in question, particularly among the youth, either have a cyclical character, rising and falling rapidly in followings and militancy, or undergo continual metamorphoses in demands and tactics. The manner in which the mass communication media disseminate information on them and emphasize their more extreme or picturesque features exacerbates these latter traits. Descriptions and interpretations quickly become dated, as in the case of the identification by some social scientists in the late 1960s of a profound revolution in the values and behaviour of the educated youth; the ferment of youth subsided by the early 1970s, but now may be on the rise again. The movements in question affect the functioning of society and the State in several quite different ways:

(i) They exert pressure on the State to guarantee rights and offset social or biological handicaps by regulations and compensatory services, as in the cases of 'affirmative action' to guarantee women and minorities parity in employment and education. These measures place unprecedented responsibilities on the welfare State and introduce serious rigidities into the functioning of public services and private enterprises;
(ii) Some of them resort readily to extra-legal tactics such as disruption of essential services, boycotts and tax strikes that hamper the functioning of the State and contribute to its discredit as either impotent or repressive.
(iii) They generate a wide range of initiatives for personal or group secession from the prevailing life-style and the political and economic systems;
(iv) The clash in life-styles, the cultural shock caused by certain libertarian demands, and the frictions produced by bureaucratic regulation of group rights excite organized resistance, counter-mobilization, and extra-legal disruption by other elements of the societies, including the police.
(e) The traditional political roles of the middle and working classes shift to some extent. The more highly educated and upper-income elements of the middle classes become more open to new life-styles, egalitarian and reformist policies, and global issues such as environmental protection and limits to growth. A large part of the working class, particularly the better-off and better-organized elements, remains culturally conservative, becomes less open to the appeals of socialist and social reform ideologies, and concentrates on particularist demands. The impingement on its values of the middle-class cultural revolution, and the impact on its immediate interests of continual technological innovation, loss of dynamism and dwindling employment in traditional heavy industries, and internationalization of production and labour markets under the aegis

number of persons having access to them (e.g., automobiles, suburban homes, higher education). See Hirsch, op. cit., pp. 27-31.
of the transnational corporations, place it on the defensive. It thus exerts pressure on the State to stimulate production along traditional lines, to restrict imports, and to exclude foreign labour. It is generally negative toward environmental and energy-saving regulations that might curtail employment.

(f) The complexity of the public services required by high-consumption, highly urbanized, highly mobile societies means that a wide variety of specialized occupational groups either negotiating directly with the State (police, firemen, postal employees, teachers, doctors, etc.) or engaged in activities so central to the functioning of the society that their demands impinge necessarily on the State (transport, power and communications workers) become able to enforce demands by tactics disrupting the life-styles and expectations of large sectors of the population. Their increasing readiness to resort to such tactics, and the decreasing capacity of the State to prevent this by legal prohibitions and repression, coincides with widespread dissatisfaction over the declining quality of the services and the inability of the State to run them efficiently.

(g) Mass formal education shares conspicuously in the disillusionment with the achievements of the welfare State. The apparent capacity of the schools to socialize youth and inculcate tool skills declines, in spite of increasingly prolonged and costly compulsory periods of schooling, during a period in which the capacity of the family to perform these functions is also declining. The impression gains ground that the schools are serving a custodial function (freeing parents for work and keeping children off the streets) more than an educational function. The egalitarian objectives discussed above force additional responsibilities on the schools while widely publicized research fortifies scepticism as to the capacity of the schools to contribute to such objectives. At the same time, the 'massification' of higher education devalues its role in selection for preferred occupations, leads to further prolongation at post-graduate levels, and contributes to the cycles of youth protest. 'Scholarly research' becomes increasingly formalized as a means of employing and also screening the products of higher education. Some of the eligible youth abandon education in rejection of these patterns.

(h) Fertility rates decline with unexpected rapidity to levels below replacement, with consequent accelerated aging of the national populations. This has a series of repercussions on the societies that will become progressively more important:

(i) The numbers of young people passing through the school systems in the 1960s and then entering the labour market in the 1970s have been exceptionally high owing to the so-called 'baby boom' of the later 1940s and the 1950s. With the present slowdown in economic growth their absorption into the labour force is lagging. Unemployment rates for the active population under 25 years of age are much higher than rates for the rest of the active population. The more highly educated youth have difficulties in finding jobs matching their expectations, and the least educated cannot find jobs of any kind. However, the numbers

16Celso Furtado points out that the large corporations have a choice of two tactics to increase profits, to the extent that the State permits their use: exporting production to subsidiaries in countries with low labour costs and importing labour from the same countries. The immediate interest of the organized workers in the high-wage countries, except in periods of very rapid economic growth and full employment, in which they are not interested in jobs in the lower range of skills and wages, is to exert pressure on the State to prevent the corporations from using either tactic. See Celso Furtado, op. cit., pp. 47-48.

17In the countries with relatively high fertility rates in the recent past, such as the United States, this does not preclude the likelihood of a stationary population before the end of the century, even if the present trend continues. In Germany (the Democratic Republic as well as the Federal Republic), however, and in a few other European countries in which a recent drop in the birth rate follows a relatively long period of low fertility, the population is now beginning to decline.
entering the school systems have been falling for some time, and projections for the future are now being revised downward.¹⁸ The numbers entering the labour market will also shortly begin to fall. Presumably the excess of young entrants over demand will dry up and be replaced by an excess of demand over supply, although the groups that have experienced prolonged unemployment may continue to present serious problems of adaptation. Whether the lesser numbers of youth will result in labour shortages will depend partly on future rates of economic growth and styles of technological innovation and partly on the participation rates of women, immigrants, and the upper age groups;

(ii) The unexpectedly rapid aging of the population is already producing important shifts in needs for different social services, with unused capacity in the schools and overburdened services for the aged. The importance of geriatric medical care rises and that of pediatric care declines. The market for consumer goods, recreational services and housing also changes. Within the norms of the consumer society, industry and advertising must adjust and try to manipulate the changes;

(iii) The increase in the relative size of the upper age groups and the continual amplification of social security benefits and coverage over recent years generate unexpectedly formidable rises in social security costs, bringing abruptly to the attention of the societies the ominous implications of the future burden. This trend combines with the broader disillusionment with the welfare State and the quest for alternative life-styles to encourage rising evasion of labour laws and taxes, particularly through self-employment and artisan-type activities.

Complex conflicts of interests and aspirations between the population of active ages and the upper age groups, or between sectors of both groups, are emerging. With recession the position of older workers becomes more insecure; if their jobs disappear they are unlikely to find new ones. Some of the aging continue to press for early pensioned retirement, while others demand the abolition of fixed-age retirement and legally-guaranteed equal access to jobs, because of the frustrations of inactivity at reduced income levels. Increased employment of the aging will presumably become necessary to compensate for the decline in young entrants to the labour force and relieve the social security burden. During the transition period, however, this will generate other frustrations among the younger employed whose prospects for better-paying jobs and promotions become clogged. It will also add to the complexity of bureaucratic protection of equal rights. Even without the re-entry of the groups above present retirement ages, the average age of the labour force will rise, and warnings are now heard that this will mean a crippling of innovativeness and labour mobility;

(iv) According to some prognoses, the industrialized countries are falling into a demographic trap, in which the devaluation of the family and the increasing burden of the aged on the young will lead to fertility rates permanently below replacement levels and to impoverished and decadent national societies. It seems equally likely, however, that future fertility rates, with universally accessible and acceptable

¹⁸In the United States, projections for total school-age population (5-24) in the year 2000 have been revised downward from 125 million to 79 million, only slightly higher than the present figure. The proportion of high school students going on to higher education is declining, and this, together with the decreases in size of the age groups, indicates that higher enrolment may be only 13 million in 2000, as against the 17 to 22 million once expected. (See "The Future Revised: Education's Big Boom is Ending but Studies to Get More Diverse", The Wall Street Journal, 8 April 1976.)
contraception and abortion, will fluctuate abruptly with changing cultural fashions, economic conditions, and degrees of optimism or pessimism concerning the future, resulting in unprecedentedly uneven age profiles of the population. It is also probable that the populations of the industrialized countries will increasingly be replenished, whether their dominant forces permit this or not, by waves of migrants from other parts of the world. For national societies adjusting to the ecological, political and social limits to growth and to the demands for human equality the present demographic trends are not necessarily negative, and it is simplistic to assume that an aging population must be stagnant. However, the trends obviously call for comprehensive readjustments in work patterns, in sources and uses of income, and in social interactions, for which there is at present no consensus.

(i) The industrialized countries become increasingly dependent on foreign labour to perform lower-paid manual work. The characteristics and circumstances of entry of such labour differ according to the country concerned, but it has become important throughout the industrialized world. In some countries it is composed mainly of migrant workers under contract for fixed terms, without families; in others of illegal migrants with or without families; in others of permanent immigrants mainly with families and selected by the host government according to some criterion of employability; in still others of migrants deriving rights of entry from the former colonial status of their homeland. The migrant workers come mainly from ‘semi-developed’ countries rather than from the ‘least-developed’ countries whose excess labour force is physically and educationally ill-adapted to the demand. The semi-developed countries consequently face a drain of labour in times of prosperity, offset by remittances to families from workers abroad, and an intensified unemployment problem in times of recession. (Algeria, Morocco, Tunisia, Portugal, Spain, Italy, Yugoslavia, Turkey, Mexico, and the Caribbean island countries are those most affected.) Whatever the circumstances of their entry, the migrants gradually gain a permanent foothold in the labour force and the society of the host country, under disadvantageous and sometimes conflictive conditions, and their presence changes the outlook and conditions for solidarity of the working class. Economic recession and rising unemployment make it probable that the entry of migrants will be curbed during the immediate future, but these factors do not altogether offset their willingness to accept incomes and working conditions that are no longer acceptable to the host country’s own labor force.

Two quite different kinds of migrants are also contributing to the increasingly multi-ethnic character of the populations of the industrialized countries: professionals and technicians entering the labour force at middle or even high income levels, and political exiles whose insertion into the labour force is often unrelated to their previous experience. The numbers and national diversity of political exiles have increased rapidly, and they are beginning to have important catalytic roles both in the organization of other migrants and in the evolution of political movements in the host countries.

(j) Modernization of agriculture, shifts in the structure of industrial production and other factors have brought about wide variations in rates of economic growth, income levels and demands for manpower in different internal regions. In the European countries here considered, with nearly full employment from the late 1940s up to the mid-1970s and with slow growth in the labour force offset by the importation of labour, these disparities have not generated unmanageable tensions in the urban zones of rapid growth and immigration, but they are generating increasingly militant demands for autonomy and for a larger share of public resources on the part of declining regions
and occupations, especially but not exclusively where the regional population is culturally or linguistically distinct from the national majority. Questions of the unity of the nation-State and the basis for claims to self-determination, which seemed to have been resolved in Europe, have thus been reopened with unexpected violence.

In the United States the consequences of uneven regional growth and changes in livelihood have been quite different. Exceptionally rapid modernization has expelled from agriculture a population with relatively low educational and skill levels, and in large part harpered by racial discrimination. A 'marginalized' population in extreme poverty by national norms has thus concentrated in the great cities, bringing about a sometimes violent competition for jobs, services and housing between the new urbanites and the longer-established urban working class; the mushrooming of an extremely costly public welfare system that unintentionally generates disincentives to employment and stable family life; and the flight of much of the middle-class urban population to the suburbs. As the new urbanites become increasingly able to compete with other urban groups in enforcing demands through the vote and through organized action, city government enters upon a crisis of continually rising costs and static resources. The simultaneous entry of millions of foreign workers, first in agriculture and later in the lower-paid urban occupations, places additional strain on the national capacity for adaptation to economic, demographic, and cultural change.

(k) Crime, especially violent crime, increases markedly in quantity and visibility. This trend is associated to some extent with the urban crisis referred to above, but appears also in countries in which this crisis is not acute. While speculation on crime requires particular caution, in view of temptation to sensationalism and the unreliability of indicators, it is plausible that the rise in visible crime reflects the declining legitimacy of the State and the social order that also manifests itself in the militant libertarian-egalitarian demands and the quest for alternative life-styles. The 'respectable' elements of the societies facilitate between demands for drastic repression and demands for broad reforms aimed at the social causes of crime, with declining confidence in the effectiveness of any solution. There follows resentment against the State for inability to cope with the problems; increased distrust of ethnic groups associated with violent crime; and generalized refusal on the part of the marginalized urban population to accept the role of deviants from a just social order. Resistance movements and links with political militance emerge in the prisons, increasingly overcrowded and discredited in their rehabilitatory and punitive functions.

(l) Reactions of different sectors of public opinion to trends in the rest of the world become increasingly confused, self-contradictory, guilt-laden, and resentful. The concern of parts of the middle classes and parts of the labour movement over world poverty, human rights, population growth, environmental and related problems becomes stronger, but mingles with rising disillusionment over the efficacy of 'aid' (military as well as economic and social); resentment over aggressive economic and other policies of Third World governments; uneasiness concerning the domestic repercussions (particularly the impact on employment) of the activities of transnational corporations in these countries; and hardening of stereotypes concerning the oppressiveness, corruption and incompetence of Third World governments and dominant classes. Small but conspicuous political movements identify themselves with Third World revolutionary struggles and even try to reproduce these struggles in their own countries.

Distrust of the motives of the home government in supporting and distributing 'aid' in the face of apparent governmental incapacity to solve domestic problems is probably most pronounced in the larger industrialized countries, particularly in the
United States in the aftermath of the Vietnam war. In certain middle-sized countries in Europe and in certain Commonwealth countries the more articulate current of public opinion seem to favour the kind of transformation in the Third World that is summed up in 'another development' and to support relatively openhanded government co-operation in such initiatives. In the European countries in question this sentiment coincides with the achievement of relatively egalitarian welfare-oriented societies under democratic socialist governments. Elsewhere, particularly in Canada and Australia, nationalist reactions against economic, political and cultural dominance by the world centres have generated a degree of self-identification with the Third World, without, of course, overcoming the confused, suspicious, or censorious attitudes noted above.

(m) Japan, ever since it entered the modern world order, has contradicted current theories of development and modernization, constituting an astonishing example of what can be achieved by a country with an unfavourable resource endowment and a social structure very different from that associated with capitalist development elsewhere. At present, it also constitutes a reductio ad absurdum of expectations concerning the benefits of very high economic growth rates. Most of the seeds of change discussed above are visible, but their specific traits and their probable consequences are far apart from those noted in Europe and the United States.

One sees at present: (i) Apparent proximity to the ecological limits of growth in terms of air and water pollution and intensified overcrowding of population combined with mass ownership of durable goods; (ii) Exceptionally rapid incorporation of the population into a consumer society, with a particularly traumatic consumer shift from products moderate in space and energy demands to the automobile; (iii) Rapid increase in resistance by the working class to the low wage levels that facilitated export-oriented economic growth; (iv) Demographic transition to low fertility accelerating through the 1950s, resulting in a present labour force nearly stationary in size; (v) In consequence of these four trends, an urgent need to export further industrial growth to countries with more abundant manpower, low wage levels, and more incipient pollution problems (in contrast to Western Europe, which has imported workers to take the less attractive jobs, Japan is exporting the jobs; in the United States the two tactics have been followed simultaneously); (vi) A boom in mass tourism, mainly to countries with lower costs of recreational services (the impact of European tourism on the Mediterranean and of United States tourism on Mexico and the Caribbean has its counterpart in Japanese tourism in Southeast Asia); (vii) Most recently, a sharp decline in the rate of growth in production, the appearance of appreciable unemployment for the first time since the early post-war period, and the weakening of traditions of job security in enterprises.

The vulnerability of the economy to external shocks and the improbability of recuperation of growth rates matching those of the past are presumably important stimuli to anxiety and distrust of the capacity of the State to cope; however, these factors are offset by a high degree of social discipline and by social sources of personal security unmatched in the United States or Europe. At the same time, violent rejection of the existing order by political movements with an appreciable following among the youth takes particularly extreme forms, and frustration at the shattering by external and internal factors of the dream of permanent full employment and consumerist development may well exacerbate this tendency.

(n) In the European Mediterranean countries overall trends and patterns differ from those of the rest of Europe, in ways that are of particular interest to Latin America. The countries in this group are Greece, Italy, Portugal and Spain. France has certain traits in common with the group in spite of its
higher income level; Yugoslavia in spite of its socialist economic and political system; and Turkey in spite of its lower income level and more predominantly rural population. The countries in question are economically and socially semi-developed or unevenly developed. Their more backward internal regions are suppliers of labour not only to the more developed parts of the same countries but also to the rest of Europe. Tourism from the rest of Europe is an important factor in their economic growth and in their social changes. Tourism, as in Mexico and the Caribbean, demands at the same time considerable investment in modern facilities expected by tourists, the preservation of a "traditional" culture and artisanal activities, and relatively low wage rates in service occupations. These countries are undergoing rapid and uneven modernization, with more disruptive socio-cultural consequences than in the rest of Europe; differences between the life-styles of internal regions and social classes continue to be wide. The demographic transition to low rates of population increase is only recently completed or is now under way. Politicization is relatively intense, with Marxist working-class parties; neo-Marxist and anarchist intellectual currents and youth movements; clerical, traditional-reactionary and neo-Fascist movements; and national-separatist movements, all showing greater vigour and mass support than elsewhere in the "developed" non-Socialist world. The capacity of the State to act as arbiter is increasingly precarious, for different reasons in each country. The political role of the military is prominent but ambiguous, sometimes shoring up the existing order, sometimes pressing for radical change.

The resemblances to Latin American patterns are obvious, and a good deal of mutual political-ideological-cultural interaction might be expected. In the Mediterranean countries, however, the relative size and influence of the organized working class are greater and the dimensions of the marginalized rural and urban groups in critical poverty smaller; the political game is more structured; the influence of parties with mass memberships and coherent ideologies is stronger; the appeal of populism and charismatic leadership is weaker; and the capacity of the military to act autonomously in pursuit of self-determined political missions is somewhat more limited. Industrialization in most of the Mediterranean countries is more advanced both quantitatively and qualitatively; the national bourgeoisie has a higher degree of control of the major enterprises; and some transnational corporations are based in Mediterranean countries.

In the cyclical swings between authoritarian and democratic-pluralist regimes characteristic of both regions, Latin America has in recent years been moving in the direction of authoritarianism in the presence of conflicts otherwise unmanageable by the dominant forces, while the Mediterranean countries have been moving in the opposite direction. Popular frustration over economic recession and rising unemployment, swelled by the reflux of workers from the rest of Europe, at a time when the societies were on the verge of mass consumerism and the workers were refusing to accept previous wage levels, may be particularly important here, whether in providing impetus toward structural transformations or in bringing about a reversal of the political cycle. However, the Mediterranean countries are complexly committed to a world order and a European order that penalize deviations from pluralist democracy in politics and from openness to international market forces in the economy. The leaders of the mass political movements ideologically committed to structural transformation are evidently well aware of the constraints presented by the international order and by the consumption expectations of different classes within the countries. Thus, their programmes and tactics become more cautious to the extent that governmental power becomes a real possibility for them. At the same time, smaller movements at both ends of the
political spectrum that refuse to accept the constraints increasingly resort to disruptive or terrorist tactics.

3. The socialist 'camps'

Seeds of change in the 'Second World' of industrialized countries whose dominant forces identify them as socialist and view development from a Marxist-Leninist perspective can be discussed with relative brevity. The present section focuses on the probable implications for Latin America of internal changes in national societies in the rest of the world. Latin American interactions with the Second World, in spite of the presence in the region of one country committed to Marxist-Leninist socialism, are relatively restricted. Even the currents of opinion that seek radically different styles of development now find more in common with similar currents in the First World and in the remainder of the Third World than in the institutionalized socialism of the Second World. The appeal of the industrialized socialist countries as models for the Good Society seems to be static or declining in spite of their demonstrable achievements and their deliberate competition for acceptance as models.

Moreover, it is harder to identify the significant internal seeds of change in the socialist countries and assess their capacity for growth than in the case of the countries discussed above. The dominant forces are better able to control or conceal their manifestations. For some time the Second World will probably be able to transmit to the Third World a narrower and more coherent range of messages, and to accept fewer stimuli to change from it, than will the industrialized market-economy countries, but sudden changes in the messages and stimuli or an increasing diversification and contradictoriness cannot be ruled out.

The Second World is notoriously divided into two rival camps that agree in very little except in their rejection of capitalist organization of production and in the indispensable framework for policy. Yugoslavia seemed for a time to offer another model of particular interest to semi-industrialized Third World countries, but its external influence has waned. Yugoslavia's experience in decentralized workers' management and the combination of market incentives with socialist central planning has been ambiguous; and the seeds of change now visible suggest that the national society has not overcome the sources of tension common to the semi-industrialized labour-exporting tourism-dependent Mediterranean countries.

The first major camp, that of the U.S.S.R. and its European associates, seems to have entered a period of routinized imposition of stereotypes concerning the style of development and the level of human welfare achieved. Reform initiatives that seemed promising during the 1960s have been ruled out as dangerous to the system of political domination, and the national régimes and societies have evolved with varying degrees of rigidity or flexibility within the limits of the system. The countries are moving haltingly toward the achievement of consumer societies similar to those now undergoing cultural mutations elsewhere. This trend has several features: (i) a raising of consumption levels and introduction of durable consumer goods officially planned and controlled; (ii) an infiltration of cultural-recreational tastes and aspirations, particularly among urban youth, that is disapproved but largely uncontrollable; (iii) a proliferation of illicit or unrecognized systems for the production and distribution of consumer goods and services that parallels the phenomena of 'black' labour escaping regulation and taxation in the market-economy welfare States. Under these conditions, cultural influences, including forms of dissidence, from the richer consumer societies are better able to penetrate the socialist societies than the latter are to exert counter-influences. The long experience of austerity does not seem to have generated creative life-styles, but a hidden appetite that emerges to the extent
that real consumption opportunities appear.

Several factors hamper the movement toward the consumer society: (i) the lagging productivity of agriculture, making the achievement of a varied diet precarious, increasingly dependent on external supplies, and politically neuralgic; (ii) the low capacity of the planning system to improve consumer goods production, distribution and responsiveness to consumer tastes; (iii) chronic problems of work incentives and societal participation associated with a long history of routinized and centralized mobilization and exhortation; and (iv) the need to devote relatively high proportions of the national income to armaments and heavy industry related to armaments in order to meet prevailing conceptions of the obligations of a world power and match a rival enjoying a much higher per capita income level.

In the European parts of this socialist camp low birth rates over a long period are now resulting in nearly stationary and aging labour forces and the beginning of labour transfers from less industrialized socialist countries or peripheral zones of the same countries, supplementing previous flows of rural labour into industry. Pressures on women to enter the labour force have been constant, and the high participation of women, along with urban housing shortages, has contributed to the low birth rates.

Recent trends of particular importance in the smaller countries of this camp include: (i) increasing reliance on mass tourism from Western Europe as a source of foreign exchange; (ii) increasing receptivity to transnational enterprises offering technological innovations and exportable products in exchange for an entry into new markets and a low-wage, dependable, relatively well-qualified labour force. Both trends point to increasing dependence on cultural and technological innovations from the market-oriented consumer societies.

In the second camp China stands alone, with a unique combination of advanced industrial-technological capacity, huge population, low income levels and peasant majority that differentiates it both from the first socialist camp and from the increasing number of small non-industrialized Third World countries whose dominant forces have chosen variants of Marxism-Leninism as frames of reference for policy. In recent years the Chinese socialist style of development has manifested an innovative capacity greater than that of the first socialist camp, with periods of consolidation-bureaucratization alternating with periods of revolutionary ferment generated by poorly understood combinations of stimuli from above and pressures from below. It is much better shielded from the heterogeneous influences emanating from mutating consumer societies than is the Soviet-Central European style. The sheer impossibility of substituting diversified industrial consumer goods incentives for shared frugality in a population such as the Chinese, the smallness of the groups even aware of other life-styles, and the capacity of the leadership to generate compelling national objectives should combine to preserve the coherence of the style for some time to come, although not necessarily with the kind of conflictive innovativeness with which it has been associated.

The Chinese style of development, or rather the idealized versions of it current abroad, has two facets associated with the alternation mentioned above and appealing to completely different currents of opinion in the rest of the world: (i) the frugal, egalitarian, resource-conserving, orderly, peasant-based social order, generating innovations in local participation and labour-intensive production but otherwise conformist, zealously practising family planning, attractive to frustrated developmentalists of many political complexions; (ii) the 'cultural revolutionary' challenge to political gradualism, bourgeois life-styles, bureaucratization and imperialism, accompanied by an apocalyptic vision of the future, inspiring the Maoist movements outside China and especially attractive to minorities among university-educated youth.

China has also been crucially important
to the advocates of 'another development', both as a source of concrete prescriptions for rural transformation and as the only plausible demonstration (other than Tanzania) that a real national society might set out seriously to realize their frugal egalitarian utopia. The seeds of change now visible in China, and particularly the Chinese revelations of the origins in political factional struggle and the high costs of certain manifestations of technological voluntarism and anti-elitism, suggest that China, like the U.S.S.R. before it, will decline in plausibility as a utopia, or as a scene of Manichean conflicts between champions of 'good' egalitarian-participatory and 'evil' technocratic-centralist policy lines. The warnings of the Chinese themselves that their experience is not a model for the transformation of other societies will have to be taken to heart.

China will retain enormous interest for study of the interplay of political, economic and cultural factors in the socialist transformation of real societies, especially in regard to the management of communications between national centre and periphery in circumstances in which mobilization of the masses has a high priority, peasant cultures and values are undergoing complex mutations, and messages travelling in both directions are bound to become exaggerated and distorted by factors unrelated to their original purpose.

4. Regions of the Third World other than Latin America.

It is legitimate to insist, in considering the application of the principles of 'another development' to Latin America, that the relatively urbanized and industrialized position of the larger countries of the region, and their complex involvement in the present international order, imply quite different options and constraints from those facing the poorer predominantly rural parts of the world. The present paper has already suggested that mutations in the central market-economy countries are particularly relevant to the possibilities for transformation in Latin America. However, it would be equally over-simplified to suppose a clear-cut dividing line between 'semi-developed' Latin America and the rest of the Third World. In differing ways, most of the other Third World countries are also complexly involved in the international order. The aspiration to endogenous rural-community-oriented styles of development in a good many of these countries has stronger justifications than in Latin America, but it is not clear whether the resistances to such styles from the unevenly modernized social, political and economic structures will be any less formidable.

The Third World national societies outside Latin America can be classified according to several criteria, all of which have some relevance for present purposes: (i) according to the size of the populations and their economies, and thus to their weight within the world order; (ii) according to geographical and cultural proximity and consequent intensity of interactions; (iii) according to endowment with or lack of raw materials in sufficient international demand to give them strong bargaining positions; (iv) according to political régimes (stable or unstable authoritarian, one-party mobilization, negotiated balance between ethnic-religious-linguistic groups, democratic-pluralist); (v) according to levels of per capita income, urbanization and industrialization (that is, approximation to patterns of semi-development); and (vi) according to the system or style of development preferred by the forces controlling the State (liberal-capitalist, State-capitalist, socialist, various hybrids). At present, a comparison of classifications according to these different criteria would show more incongruities than regularities. In particular, the adoption by forces controlling the State of a capitalist or socialist or hybrid strategy for development has become increasingly divorced from the objective conditions. The worldwide reproduction of the European model of the nation-State accompanying the liquidation of colonialism, in regions in which traditional
political loyalties had quite different bases (dynastic-absolutist, feudal, tribal, etc.) has been fruitful of anomalies.

For present purposes, the following five-fold semi-regional classification may be most suggestive: the Arab States (including those of North Africa) and Iran; Africa south of the Sahara; the South Asian States with huge populations and particularly low incomes; the States of Southeast Asia; the island mini-States of the Pacific and Indian Oceans and the Caribbean. Each group is internally heterogeneous but has common traits not shared to the same degree with the rest of the Third World, and interactions within the groups—conflictive as well as cooperative—are more intense than interactions with the Third World as a whole.

(a) In many respects the Arab-Iranian group has more in common with Latin America than have the other groups: long traditions of urban political-economic-cultural dominance, very wide differences between countries in stages of economic growth, in degrees of urbanization-modernization, and in political régimes, combined with strong cultural-linguistic ties, well established mechanisms for group action, and also deeply-rooted sources of intragroup conflict. The larger countries, including oil exporters such as Iran as well as importers such as Egypt and Morocco, have reached patterns of dependent semi-development similar to those of Latin America. The upper-income strata have broadened and diversified; the gap between them and the lower strata in the income distribution has widened; ‘modern’ consumer societies for minorities have emerged; and a marginalized under-employed labour force is expanding.

The degree of voluntarism and diversity in governmental choices of styles of development is a good deal higher than in Latin America. However, the non-capitalist development strategies that have emerged in several countries have been relatively centralized, bureaucratized, oriented to the introduction of advanced technologies in industry and agriculture, heavily dependent on imported equipment and specialists in the oil-exporting countries and on external financial aid in the others. The advocates of ‘another development’ have not found congenial innovative and participatory styles in this group of countries. In any case, countries in this group seem to have a high propensity toward the exertion of pressures for change in the international order as a whole, owing partly to oil resources and consequent availability of funds that governments can allocate with fewer constraints than elsewhere, partly to strategic geopolitical location, and partly to the contradictory combination of militant solidarity and violent factionalism that derives from the Israel-Palestine problem.

(b) In Africa south of the Sahara questions of national identity and viability are particularly prominent, with the region fragmented into a large number of relatively small States, most of them with very short histories within their present boundaries, few of them internally homogeneous, few of them with human or material resources sufficient for ‘development’ as this has conventionally been understood. Thus, external aid and regional solidarity, the latter partly to insure that ‘aid’ will not perpetuate dependency and conflict between clients of different industrialized States, are particularly necessary and particularly difficult to obtain and manage. Initiatives for regional unity coexist uneasily with centrifugal pressures within countries, with the emergence in some countries of erratic personal rule and also with aspirations to autonomous national styles of development, usually labelled ‘socialist’, and intended to bypass the impracticability of conventional development styles and supply cultural-psychological compensations. Political-bureaucratic-military élites (with roles not clearly different-

19In assessing the purportedly socialist as well as the market-economy countries in the group, Samir Amin observes that the Arab world is already markedly urbanized, its petite bourgeoisie, a reactionary class
tiated) have a relatively free hand to choose such styles because of the weakness of other social forces. At the same time, the weaknesses of the State machinery, the limitations of communication between the élites and the mainly rural masses, the dependence of the economies on raw material exports and external subsidies, and the adoption by the élites of consumerist ways of life that require concentration in their hands of the proceeds of the exports and coercion of the peasant producers result in real styles that various analysts identify as 'bureaucratic-capitalist' rather than 'socialist'. Only one of the national strategies, that of Tanzania, has attracted the advocates of 'another development' as a potential model for participatory egalitarian transformation, and even here the constraints of economic dependence, meagre resource endowment, and faulty communications between innovating élite and masses remain inhibitive. While a few of the African countries (Nigeria, Zaire, Zambia) have achieved relatively strong positions as suppliers of important raw materials, none of them as yet has been able to industrialize to a significant degree or to achieve a relative weight in the region comparable to those of some Arab and Latin American countries in their regions.

(c) The larger South Asian States are, in terms of per capita income and absolute size of populations at extremely low levels of productivity and consumption, the 'least-developed' in the world. (For present purposes, India, Indonesia, Pakistan and Bangladesh belong to this group; Sri Lanka, in spite of its geographical location, has more in common with the next group to be discussed.) If international aid were distributed according to a uniform means test, the countries in this group would receive most of it. At the same time, all of them have industrial sectors and export activities which, while small in relation to their populations, are fairly large in absolute terms or compared with those of other Third World countries. In India, in particular, the combination of an enormous population, a substantial industrial base, and strong political and administrative institutions supports a position of considerable importance in the world order, in spite of the extreme poverty of the majority. Structurally heterogeneous development, as in Latin America, has generated its own market and its own vested interests in perpetuation of the same style. In South Asia, the conservative character of the forces dominant over the rural majority props up this line of development politically while hampering it economically. Up to the present, socialist-reformist aspirations of the national régimes have led to bureaucratization and the construction of complex systems of special privileges rather than to major changes in economic and social realities, as was documented in Gunnar Myrdal's *Asian Drama* (1968).

The warnings now current of critical poverty deteriorating into mass famines apply more plausibly to South Asia and to parts of Africa than to other regions of the Third World. In Africa, the populations threatened are relatively small, and although relief action is hindered by their geographical remoteness and other factors, famines can be arrested by international aid without unmanageable costs. If the international sources of aid do not act or act ineffectually, as in the Sahel and Ethiopian droughts of the early 1970s, the international repercussions of famines in isolated thinly populated areas are weak. In South Asia, the overall capacity to increase food production faster than population is not yet exhausted, as the statistics of the most recent years show, but the governments have permanent difficul-
ties in managing production incentives, prices to the consumer and distribution networks so as to reconcile their various objectives, and remain dependent on subsidized food imports to meet shortfalls. Various prognoses indicate that over the long term only a comprehensively planned combination of agrarian transformation, population control, and very large-scale external aid will be able to prevent an unmanageably wide gap between food needs and food supplies. Even in the short term, a few bad crop years might face the international food distribution system with a crisis that it would not meet, particularly if production were to slump in the United States, the U.S.S.R., and South Asia simultaneously. A famine decimating the populations of some or all of the countries in this group would follow. The shock for the international order and for the region itself would be severe, but the consequences are hard to assess, and the kind of chaotic general collapse sometimes predicted seems unlikely. One might expect an exacerbation of several different trends in the central countries as well as in South Asia —toward horrified rejection of the prevailing international order and consumerist styles of development, toward greater national selfishness and insistence on population control as the only solution, toward more repressive regimes protecting the lives and property of the better-off South Asians with assistance from some of the central countries, and toward protracted revolutionary struggles aimed at the implantation of egalitarian austerity. The past experience of China as well as India demonstrates that famines in peasant populations do not by themselves bring about either the collapse or the transformation of the pre-existing social and political order.

The poverty of the masses of South Asia and the increasing implausibility of expectations that industrialization and agricultural modernization can overcome this poverty have been crucial to demonstrations of the necessity of 'another development'. At the same time, conceptions of rural community potential for endogenous self-reliant development stemming from Gandhism have been nearly as influential as the Chinese experience in shaping the more concrete prescriptions. It must be remembered that in the 1950s the Government of India hoped to combine development through industrialization with large-scale programmes of rural community development, using trained change agents to stimulate innovation, cooperation and self-help in the villages. Neither these programmes nor the more recent introduction of high-yielding crop varieties (the so-called Green Revolution) seem to have brought the rural societies any closer to the ideals of social equality and collective effort. The rural power holders, through their links with the national power structure, have consistently been able to manipulate the rural programmes, whether the latter were participationist or technocratic in orientation. Arguments for endogenously-inspired collective rural development are now being made with renewed fervor, and local initiatives corresponding to the ideals continue to appear, but the way to multiply these initiatives to a scale matching the needs for rural transformation without their undergoing bureaucratic standardization or capture by local vested interests seems no clearer than before.

(d) The national societies of Southeast Asia have in common medium size, relatively satisfactory ratios between land and population that are now endangered by high rates of population increase, and peasant majorities which, except in some war-devastated or otherwise disadvantaged internal zones, have not reached the depths of poverty and precarious food supply in which their counterparts in South Asia are submerged. Burma, Thailand, Vietnam, Cambodia, Laos, Malaysia, the Philippines, and Sri Lanka belong to this group. Indonesia
has many traits in common with it in spite of its larger population and the higher proportion of this population in critical poverty. Singapore and Hong Kong, as city States without a rural hinterland, are comparable to certain rapidly industrializing urban centres of the other countries, but not to the countries themselves.

Southeast Asia now comprises States that have embarked vigorously on dependent capitalist styles of development (the Philippines, Malaysia, Thailand, Singapore, Hong Kong, as well as Indonesia) and States with Socialist styles closer to the Chinese than to the Soviet model (although not necessarily in their political affiliations) that have emerged following prolonged and very destructive periods of warfare. Two countries fall outside this dichotomy; Burma has a self-isolated 'military socialist' régime sui generis that has excluded dependent industrialization and urban consumer-society modernization and has relied on the peasant majority's ability to produce surpluses of rice, without, apparently, achieving significant innovations in social relations or production. Sri Lanka since the 1940s has achieved a range of social services and consumption subsidies unique among low-income non-socialist countries. The experience of Sri Lanka is of considerable interest for 'another development'. First, it has demonstrated that redistributive policies for the satisfaction of basic needs can be materially and administratively feasible in a poor country with a rural majority. Secondly, it has demonstrated that such policies can emerge from open political competition for mass support, at formidable costs of several kinds but without necessarily incurring the breakdowns that have been common to populist régimes in countries with considerably higher income levels. Thirdly, it has demonstrated that, within a dependent capitalist raw-material-export-oriented economic framework, the inhibiting effects of such policies on accumulation and production incentives, while formidable, can be bearable and compatible with a certain amount of economic growth over an extended period. Lastly, on the negative side, Sri Lanka has demonstrated that neither political democracy nor development planning offer effective ways of overcoming the shortcomings of the welfare State, in the absence of a transformation of social structures, values and incentives. Political and economic difficulties have been recurrent and increasingly severe, but no practicable and widely acceptable alternatives to the present system seem to be in sight.

In the market-economy countries of Southeast Asia income concentration seems to be on the increase; minority consumer societies are becoming highly conspicuous, with the expected accompaniment of growing underemployed rural and urban marginal strata. The rise of mass movements of educated youth rejecting the style of development and trying to mobilize the disadvantaged urban and rural masses against it has been particularly pronounced in these countries; while movements of this kind have been repressed and silenced in various countries, their reappearance is probable.

In the three socialist countries, and particularly in Vietnam, the aftermath of war and the paucity of external aid have left no alternative to a frugal, self-reliant, disciplined style of development, and the war itself generated forms of mobilization and control attuned to such a style. The fact of victory against overwhelming odds has given this style considerable potential attraction for seekers of 'another development' in other relatively small and poor countries, but it is not yet clear whether the Southeast Asian socialist countries will over the long term achieve innovative and participatory patterns and exert influence distinct from the Chinese and Soviet models.

The geographic position of Southeast Asia and the declining ability of central countries to enforce hegemony over it gives the dominant forces of the countries, whether capitalist or socialist, a good deal of latitude in modifying the terms of external dependency by varying their relationships
with China, the United States, the U.S.S.R., and Japan, so that the possibilities for innovations in styles of development are relatively favourable. The deliberate self-isolation of Cambodia and the forced transfer to agricultural labour of its urban population show the degree of voluntarism now feasible for the régimes of small countries in zones falling outside the sphere of influence of any one central power. The experiences of Burma and Sri Lanka are less extreme but much longer-continued demonstrations that original paths can be pursued without external sanctions. In the more aggressively market-oriented countries one finds governmental initiatives designed to counteract the polarizing and marginalizing forces of the style of development (through agrarian reforms, employment creation, participatory mechanisms, conciliation of the disaffected youth, campaigns against corruption and concentrated wealth) and tactics aimed at accommodation with socialist neighbours, combined with the maintenance of régimes sufficiently authoritarian to smoother internal conflicts, guarantee stable rules of the game and offer a dependable low-wage labour force to transnational enterprises. It is significant that several of these countries have recently been favoured areas of external investment, because of their resource endowment, because of confidence that their dominant forces can maintain order, and because of expectations of growing internal markets for consumer goods. The same is not true of the South Asian countries, because their problems have increasingly seemed insuperable within a peripheral capitalist framework. It is likely that Vietnam will be able to attract similar transnational interest if its authorities find this desirable.

(e) The scattered island mini-States of the Indian and Pacific Oceans and the Caribbean have in common plantation economies, now in many cases undergoing a transformation to tourist economies; ethnically heterogeneous populations deriving largely from successive importations of plantation labour; weak national identities; dependence on external stimuli and constraints so pronounced as almost to rule out the possibility of autonomous styles of development. These disadvantages may paradoxically, as in the case of some African States, stimulate an intellectual and popular striving for 'something else' in the form of endogenous life-styles, cultural nationalism, xenophobia and charismatic leadership to compensate for the lack of preconditions for conventional development processes and strategies. The mini-States are extreme cases in the present crisis of the nation-State and the international order made up of nation-States. The number of very small units continues to increase at a time when the separate viability of even the larger nation-States is called in question. The mini-States depend for protection of their rights and support of their precarious economies on a system of international organizations and meetings continually becoming more complex, which places on them heavy burdens of representation and diversion of their attention from internal tasks, and which they complicate further by their efforts to participate.

5. Latin America: a future open to choice or hazard?

The preceding pages have implicitly posed the questions: What are the alternatives open to Latin America in a world of national societies undergoing such diverse and mutually contradictory mutations? What will be the range of alternatives in a few years? To what extent is the future predetermined by Latin America’s peripheral semi-development, and by the commitment of its dominant social forces to the consumer society and to the new international division of labour that the transnational enterprises are shaping?

The current personification of the countries of the region as an international middle class within the capitalist world order is an analogy that cannot be pushed very far. A 'middle class' composed of imitative, struc-
turally heterogeneous national societies implies internal contradictions and tensions, a precarious balance between the worlds of 'rich' and 'poor' countries, quite different from the supposed progressive and stabilizing roles of middle classes within national societies. It is evident, however, that the special relationships —cultural as well as economic and political— between Latin America and the central market-economy countries make the mutations in these countries of crucial importance for assessment of the feasibility of major changes in Latin American styles of development. Even the smaller and poorer Latin American countries have appreciable 'modern' urban superstructures and classes looking to the First World for models. The governments of the First World are more disposed and better able to hinder the emergence of radically different styles of development in Latin America than in Africa and Asia.

Thus, the internal as well as the external balance of power suggests that in most of Latin America during the immediate future, demands for equality for nation-States within a reformed international economic order will continue to have the upper hand over demands for equality for human beings within transformed national societies. The blueprints for 'another development' will still play a mainly ornamental role in intergovernmental deliberations concentrated on bargaining tactics and justifications for demands vis-à-vis the central countries. These deliberations, moreover, may become increasingly divorced from real capabilities as 'transnationalization' of the national societies advances.

If the First World should recover and maintain sufficient prosperity, self-confidence and technological innovativeness during the remainder of the twentieth century, one might envisage two plausible futures for the countries of Latin America. Either might be accompanied by political struggles as persistent and disruptive as those of recent years, but without basic changes in the internal distribution of power. Either might be accompanied by considerable gains in national income levels and in the stock of productive capital without any narrowing of the income gap between Latin America and the central countries or any significant reduction in technological and financial dependence.

One future would be a projection of present styles of development, accompanied by an intensification of the efforts that have been made intermittently during the past half-century to counteract the 'concentrating and excluding' logic of these styles and democratize the consumer society. Governments would strive to capture somewhat larger proportions of increments in the national income and curb the consumption of the upper income strata to some extent, so as to raise the rate of productive investment. They would continue to respond to the employment pressures of educated youth and the pressures of organized workers to raise their share of income, but they would also allocate resources and seek more effective policies to bring the under-employed, under-educated and under-nourished masses into some kind of productive and participatory relationship to the national society. It hardly needs demonstration that the achievement of an ideal welfare State reconciling the multiple objectives and heterogeneous pressures is unlikely. Nevertheless, present national income levels and the apparent capacity of the State to intervene in the economy and administer social services support arguments that a good deal more can be done along these lines than has been, without drastically curtailing the consumption of the rich or preventing capital accumulation. In a prosperous and expanding world economy, the governments of the central countries and the transnational enterprises might be expected to look benevolently on welfare State policies in the periphery—if only as acceptable alternatives to more radical policies— and to give them some support through their credit and trade policies. The two safety valves of expansion of bureaucratic employment for
the middle strata and public works employment plus consumption subsidies for the poor might then continue to function for some time and permit the maintenance of formally democratic political procedures.

Such a future can be criticized as unjust, wasteful of societal resources, unsustainable over the long term and uninspiring in comparison with the vision of 'another development', but it may continue for some time to be the only practicable path for governments seeking to mitigate the human cost of a style of development that they cannot transform. Neither the advocates of 'another development' nor the ideological enemies of dependent capitalist semi-development have as yet been able to demonstrate plausibly how real social forces and real governments might be able to manage affairs differently. The more difficult immediate questions for such a future then lie in the willingness of the dominant forces in Latin America to give more than lip-service to welfare objectives and in the ability of the State to secure a certain degree of autonomy in pursuing such objectives. The following quotation sums up the reasons for doubt whether the national societies, if the internal and external distribution of power remains unchanged, will be able to advance even this far in the direction of 'another development':

"For example, is the Mexican State—a State constitutionally and rhetorically committed to social justice; massively involved in the development process; overseeing an economy that is profoundly penetrated and multinationalized; with a modernizing industrial sector, export-oriented agriculture, currency tied to the dollar, inflationary pressures, and balance of payments problems—any more 'autonomous' from domestic anti-egalitarian class forces today than forty years ago? Could even the most progressive Mexican régime imaginable consistently decide in favor of impoverished *ejidatarios* when the interests of Mexican and international agribusiness are at stake? The answers are obvious for the Mexican case... but they may not be much less controversial for any régime, no matter how 'progressive' its expressed commitments, as long as these kinds of developmental rules and class alliances guide the process of accumulation and distribution."

The other plausible future, under the supposition of confirmed world hegemony by the present centres, has been described most implacably by Helio Jaguaribe:

"In the new emerging class of international 'executives', who are coming to be recruited from the local middle classes of countries under United States hegemony, through a previous educational and training program that makes their standards of work and behavior conform to the American executive patterns, we can see something equivalent to the Roman class of *equites*, who were also, after some time, recruited from the provincial middle classes through a previous process of Romanization. The new *equites* are likely to form a dependable, efficient, and honest bureaucracy, much better qualified to manage the provincial affairs than the relatively inept local élites, who were led to choose the dependent way because of their own incapacity for autonomous development. The provincial form of dependency would, therefore, improve both the self-support of provinces and their dependence on the metropolis, enlarging, along the way, the employment conditions for the local middle class, to which the new international executive careers would be opened. ... However, ... all available evidence, from both historical

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and current practices, indicates that the process of incorporation of dependent peoples into a more powerful and culturally advanced society is made at the expense of the great unskilled masses of the former. ... In a cybernetic society, where unskilled labour is almost unnecessary and where the cost of education is so high ... it is likely that the great 'demographic surpluses' of the provinces will be condemned to gradual extermination. ... The provincial administrations of the near future will probably be led to establish internal controls for population movement, obliging the rural masses to remain in the countryside, and thereby create a sort of reserve of natives, whose admission to the modern sectors of their countries will be contingent on the real increase in demand for labor in the cities. Malnutrition and the lack of appropriate sanitary conditions and medical care will gradually reduce these populations."

An indispensable precondition for either of these futures is the persistence of world centres transmitting coherent messages to the dominant forces in the semi-developed periphery and able to exercise hegemony for coherent purposes. The discussion of seeds of change has indicated that this precondition cannot be counted on, even if one leaves aside the strictly economic vicissitudes that now confront the centres, the energy shortages, the ecological constraints, and the precariousness of 'competitive détente' between the First and Second Worlds. The central countries are unlikely to provide a stable supportive environment either for the gradual consolidation of welfare States in the periphery or for the imposition of political and economic systems discarding welfare pretensions and governed solely by criteria for efficient use of resources for the benefit of the power-holders. The conception of development as a striving to catch up with the world leaders will no doubt persist for some time but will become less and less tenable.

The prospect, then, is for a highly indeterminate future in which the central countries will transmit continually changing combinations of stimuli, shocks and inhibitions to the rest of the world (and, of course, to one another) and in which the rest of the world will make equally confused and shifting responses as one pressure or another comes uppermost. In spite of governmental aspirations to stabilize the periphery, the centres will not be able to avoid destabilization. The sudden impact of revelations in certain central countries of bribery by transnational enterprises and of subversion by intelligence agencies, both byproducts of domestic political struggles and resistances to the prevailing style of development illustrate the unpredictableness and diversity of the accidents, in the road ahead of any central strategy for domination.

While the governments of the central countries will go on minimizing the scope of confrontations and making whatever concessions they feel they can afford, their actions will continue to respond more to domestic considerations (e.g., protecting supplies of key raw materials; satisfying the demands of the military-industrial complex and the organized workers; curbing the tactics of the transnational enterprises sufficiently to keep them from nullifying governmental employment, balance-of-payments and other objectives) and to rivalries among themselves than to the needs and demands of the periphery.

At the same time, the increasing diversity and militancy of the domestic social forces intervening in central-country politics, culture, and economic organization introduces wider opportunities for social forces in the periphery, in power or out, seeking more advantageous terms of depen-

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dency or freedom from interference in transforming the national style of development. They can find alternative allies in different sectors of the State apparatus of the former countries, in their legislative bodies, in their political parties and trade unions, and in a wide range of organized groups promoting causes from environmental protection to human rights and equality of the sexes. An increasing internationalization of ideological-promotional movements and interest groups may co-exist uneasily with the increasing penetration of transnational enterprises, increasingly imitative consumerism, and increasing dependency through indebtedness — and also with rising insistence on nationalism and self-reliance in styles of development.

Some few of the smaller industrialized countries of Europe and some of the 'high-income dependent' countries outside Europe will probably advance farther in vicarious utopianism, the promotion of 'another development' in the Third World, albeit in practice having to concentrate their hopes and their aid on a few promising national societies. Even in these latter cases, it is unlikely that popular support for 'another development' will become strong enough to permit any government to undertake aid on a scale seriously depressing domestic levels of living, as the universalist versions of 'another development' imply.

In the case of Latin America, the influence of mutations in the central market-economy countries will undoubtedly continue to be stronger than the influence of mutations elsewhere. Interchanges with other Third World regions, while they are on the rise, are practically restricted to the sectors of government concerned with international affairs and development policy, certain intellectuals and social scientists, and the leaders of certain political movements. The proportion of the Latin American population, outside the Caribbean sub-region, that feels kinship with or interest in the social changes of Africa and Asia must be small.

The capacity of the two socialist camps to influence the course of development in Latin America depends partly on their demonstration of the viability of non-capitalist development, as their reality is filtered through the mass media and the consciousness of different sectors of opinion; partly on the strength of disciplined social movements identifying themselves with one camp or the other; and partly on the ability and willingness of the two camps to offer material and technical aid to governments and movements. In the first respect, in recent times China has offered a model more accessible to very poor predominantly rural societies than to relatively urbanized societies. In the other two respects, the U.S.S.R. has had the advantage, in view of the greater organizational cohesiveness and working-class base of the parties looking to it for guidance and in view of its greater industrial and technological capacity.

In Latin America during the immediate future it is improbable that, except in Cuba, the two socialist camps will exert a stronger influence than in the past. The two facets of the Chinese experience will continue to edify different sectors of opinion, whatever their fate in China, but the possibility of direct borrowing has nearly disappeared. Soviet trade relations and technical cooperation will probably have an appreciable but deliberately restricted role in a good many countries. The irradiation of Soviet internal social trends, however, in the absence of unforeseeable changes in their present patterns, will be weak, possibly serving mainly the advocates of peripheral capitalism in their efforts to demonstrate the absence of any better alternative.

Since the beginning of the 1960s Cuba has had an important and deliberately cultivated role in posing a radically different style of development, corresponding in many respects to the objectives later proposed for 'another development', as both possible and necessary for Latin America. The Cuban experience deserves a more detailed assessment than it can be given in
the present context. On the one side, Cuba has demonstrated that a socialist alternative can be viable and capable of satisfying basic needs of a previously marginalized population to an extent unmatched elsewhere in Latin America. On the other side, it has achieved this at a price, in terms of extreme austerity in consumption, centralization of economic and political power, integration into one of the world socialist camps, and expulsion of the large minority of the population unwilling to accept this style of development, that is higher than social forces likely to take power in any other country of the region may be willing or able to pay. Marxist-Leninist ideological orthodoxy, central planning of the economy, and integration with the Soviet camp will not be able to isolate Cuba from the 'seeds of change' that have been discussed above, and may prove as inhibiting to necessary future transformations as the peripheral capitalist ties of dependence of the remainder of Latin America.

The argument pursued in this paper does not imply that the future of Latin America can or will be passively subject to destabilizing mutations of the central countries, or that the repercussions of these mutations will soon outweigh the deliberate efforts of the centres to shore up peripheral capitalism and temper its harshness by subsidizing welfare State initiatives. It is even possible that variants of the market economy and the consumer society will be able to maintain themselves successfully in Latin America, on their own terms, after their decomposition is farther advanced in the centres, because of the greater capacity of the dominant forces in Latin America to repress the contradictions. It is also quite likely that the visibility of extreme inequality and exploitation in Latin America, the failure of efforts to transform styles of development, the associated repression, struggles against repression, and expulsion of dissidents to the centres will have a significant impact on mutations in the centres themselves, providing tactical lessons, rallying issues, and grounds for denunciation of the transnationals and the consumer society. In one way or another the peoples of Latin America are bound to be active participants in shaping a future that will be confused and conflictive, not predetermined by the region's present insertion in the international order or the present inability of counter-élites to offer convincing alternatives.

The argument does imply that the debate over 'another development' is only beginning. The inherent compulsion of the present system of international organizations to cast 'another development' in a universalist and immediatist mould of strategies and plans of action to be agreed on by governments tends to devalue it as an inspiring myth and relevant utopia by inflation and evasiveness; but the basic propositions will recur, with changing terminology and emphasis, taken up by new social forces and movements acquiring greater realism and political viability, as the various hybrids of the welfare State and the repressive State lose credibility.

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23See Apreciaciones sobre el estilo de desarrollo y sobre las principales políticas sociales en Cuba (CEPAL/MEX/77/22/Rev. 2), May 1978.
The internationalization of the Latin American economies: some reservations

Héctor Assael*

Since the mid-1960s, the Latin American economy—particularly in the case of the large- and medium-sized countries—has been undergoing a process of increasing internationalization, which is signifying a progressive assimilation and overlapping between the internal market of the countries of the region and the market in which world trade is carried on. This new pattern of development has been profusely analysed in the literature of economics, and as a general rule the emphasis has been placed on its positive aspects.

In the present article an attempt is made to do the opposite, that is, to identify and analyse its essentially unfavourable effects, so that a more balanced appraisal can be made of what has been happening in the growth processes of several Latin American countries. In line with this approach, two distinct types of reservations are specified in the article with respect to the trends generated by internationalization. On the one hand, those problems are grouped and examined that are primarily linked with the channeling of development and the evolution of internal demand and supply. On the other hand, consideration is given to the effects produced by alterations in the structures of domestic prices and of the remuneration of the factors of production.

In the light of these criticisms, the author stresses the need to formulate and apply economic policy measures whereby the consequences in question can be counteracted and modified.

*I am grateful to Raúl Prebisch and Aníbal Pinto for their comments. I should also like to thank Robert Devlin and Adolfo Guerrieri for their valuable criticism. Any errors that the article may contain, however, are the sole responsibility of the author.

**In this connexion see, for example, the observations made by Mr. Enrique V. Iglesias, Executive Secretary of CEPAL, at the press conference held in Santiago, Chile, on 22 December 1975 (especially pp. 20 and 21), as well as in the address delivered at the seventeenth session of CEPAL (Guatemala, May 1977), which was published in the CEPAL Review, Santiago, Chile, first half of 1977, pp. 246-279.
Accordingly, the concept of internationalization which is used in the present article refers primarily to the increasing openness of those Latin American countries in which there was really room for such a trend to occur, and which, in fact, had previously achieved significant economic development of the type termed ‘inward-directed’.

This progressive opening outwards has taken place in differing degrees of depth and breadth. On the one hand, there are the countries where the movement has been pitched in a lower key, and has mainly implied active participation in world trade —especially through the expansion of non-traditional exports— and an increase in the relative importance of foreign investment and external financing in the growth of their economies. Nevertheless, in these countries, among other features of their economic policy, customs tariffs (or subsidies, or both together) have continued to serve as a vitally important instrument for the protection of domestic production, especially manufacturing industry; the direction of internal price policy is still determined by the governments concerned, and it has been handled more or less —not, of course, completely— independently of what has happened in the world market. Brazil and Mexico are perhaps two representative examples of this kind of internationalization.

On the other hand, there are the more manifestly internationalized countries, of which Chile and, to a lesser extent, Uruguay seem to be the most authentic examples, and which, besides accentuating the characteristics noted at the beginning of the preceding paragraph, have diminished customs protection or are reducing it to very low levels, while at the same time the policy of freedom of internal prices has been almost absolutely applied.

Where this latter option has been chosen, the essential characteristic has come to be a progressive assimilation —or a significant degree of fusion— between the domestic market of the countries undergoing internationalization and the world market. Thus, the domestic prices of the goods traded show a tendency to resemble international prices, which becomes all the more marked, the more intense and lasting is the internationalization process and the less the costs of transport, entry and marketing of the goods imported and exported.

This similarity of prices —which, of course, is not the same as equality, and allows for differences from one country to another— affects commodities and certain services which are normally traded in world markets, and its projections relate primarily to the following: levels of national and international prices; price systems or structures in force respectively at home and abroad; and, lastly, fluctuations in international prices —of specific commodities or across-the-board— which tend to be reproduced with similar degrees of intensity in the internationalized countries of the region.

Most of the questions raised and reservations outlined in the present article are more relevant to the relatively industrialized Latin American countries in which internationalization is most open and goes deepest. However, some of the considerations to be discussed later are also valid, up to a point, for the Latin American economies whose internationalization has been more moderate, that is, for those of the first type described. And with all the more reason, for certain countries which fall midway between the two extreme cases portrayed, as well as for others that may be currently adopting policies designed to make their economies more open.

The matter of chief concern on the present occasion is to show certain sequels or trends which often emerge in economies that have undergone or are currently experiencing a process of internationalization. What is aimed at here is to single out those effects to which least attention seems to have been paid, and which, it may be said in advance, are usually those with negative connotations.
To a large extent these connotations constitute the 'cost' of internationalization, and therefore do not lead directly to a decision as to whether the process itself is advisable or not, but simply to a more balanced appraisal of it. Naturally, internationalization also produces important favourable effects—which should be included in the evaluation of the phenomenon—but they will not be discussed in the present notes, since the literature on these aspects of the question is copious.

The unfavourable implications of internationalization can be classified in two major groups. On the one hand, there are the effects that make themselves apparent in the behaviour of the more generic—-primarily macro-economic—-variables. In this group consideration will be given to the trends that may be generated in the orientation of the development process, and the evolution and composition of domestic demand and supply. In the second group will be analysed those problems which arise out of changes in the structure of domestic prices and in the remuneration of the factors of production, as well as in the existing relations between earnings and prices.

II

Internationalization and channelling of development of the Latin American countries

1. A new frontier for the industrialized economies?

One way of looking at internationalization is to view it as part of a broader phenomenon and in a more far-reaching historical perspective, in which the industrialized countries with market economies are seen to be, as it were, extending the frontiers of their own economic system. Thus, developing countries in process of internationalization, among them those of Latin America, become a new frontier for the developed countries, so that for the outside world they come to represent what the ‘conquest of the Far West’ might have meant to the United States at the close of the last century.

There is perhaps nothing intrinsically objectionable in this way of making growth instrumental policies, a crucial role is undoubtedly played by those most directly related to the behaviour of the external sector. Although this is a serious omission—-because of the interaction between the combination of economic policy measures applied and the type of internationalization which materializes, as well as its degree of intensity—, it does not seem to us to invalidate the essence of the main questions which are singled out later.

Another approach would be to point out that internationalization corresponds to an essential stage in a broader—and generally accepted—process of world economic integration. Nevertheless, even in this more positive statement of the case, a distinction would have to be drawn between those developing countries which really are integrated in the world economy and those others that may rather be said to constitute appendices to it, dependent upon it but not properly incorporated.
more dynamic and in this type of centre-periphery relations, but what does need to be recognized is that it conduces to a tendency for the development style of the countries in process of internationalization to be strongly influenced by that prevailing in the main centres (the United States and, on a lesser scale, Western Germany, Japan, France, Italy and the United Kingdom). This influence will of course depend upon how broad in scope, how long-standing and how intense are the internationalization processes undergone by the Latin American economies.

In this way, despite the enormous differences between the centres and the periphery in respect of personal income and income distribution patterns, the internationalized countries have begun to find themselves prematurely faced with characteristics and problems proper to industrialized economies.

The most obvious manifestation of this linkage between the development styles of the centre and the periphery is the steadily increasing propensity observable in the Latin American economies to press on systematically towards levels and patterns of consumption resembling those of the industrialized countries. Internationalization facilitates, legitimizes and accentuates the demonstration effect—originated at an earlier date, mainly through the influence of the communication media—which at the same time crystallizes in demand on the part of the upper and upper-middle income groups in the region, generally on the basis of comparatively lower prices that in the past.

A clear illustration of the foregoing point is afforded by the exaggerated extent to which the 'private-car civilization', with its more and more technically-refined vehicles, has gained ground in Latin America as a symbol of material progress and as the ideal means of transport which the population aspires to enjoy; additional evidence of this tendency is to be found in the growing number of Latin American families, in the upper and upper-middle income groups, that own two or more cars. Thus, in addition to the questionable channelling of resources—including fuel consumption—implied by the rapid growth of the automobile park, this trend has meant that a sizable fraction of national investment has had to be concentrated in the establishment and maintenance of the infrastructure required for the circulation of private cars. Accordingly, when one witnesses and suffers the harassing car problem by which many Latin American cities are beset, one cannot help wondering whether other systems of urban transport—based rather on utility vehicles or on simpler means of transport, such as the bicycle, which is widely used in some of the highly-industrialized European countries—are not more advisable alternatives.

The tendency to follow closely the consumption patterns of the central countries—which include, for example, colour television, high-powered motorcycles and complex sound equipments, and of which plenty more examples could be given—has yet other connotations. First, it implies prematurely and intensively introducing into the developing countries problems or motives of concern, such as those relating to the quality of life and of the environment, which in the industrialized countries have gradually arisen with the attainment of high per capita income levels—in practice, not very long ago—and with which they are now endeavouring to cope. Secondly, it means accepting the dynamic limitations of a development model that is largely based on

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1It should be recalled that this thesis, which projects the Schumpeterian demonstration-effect on to the international plane, was formulated as early as about 1950. See Ragnar Nurkse, "Some International Aspects of the Problem of Economic Development", in American Economic Association, Proceedings, Boston meeting, 1951, pp. 571-583, and Some Aspects of Capital Accumulation in Underdeveloped Countries, El Cairo, 1952, especially pp. 36-52; and, similarly, Raúl Prebisch, Theoretical and practical problems of economic growth (E/CN.12/221), Santiago, Chile, mimeographed text, May 1951, pp. 6-7.
the rapid expansion of consumption, and is not founded, or only on a lesser scale, on the speeding-up of the rate of investment. The limitations in question may be greater still when consumer goods designed in the centres and not in the developing countries themselves are indiscriminately brought in.

2. Some asymmetries generated by internationalization

A second characteristic of the development pattern fostered by internationalization is the existence, or even the promotion, of asymmetries which accompany a growth process of this kind.5

In the first place, as Raúl Prebisch has pointed out,6 it is glaringly obvious that internationalization has done much to bring about a rapid and intense alteration and modernization of the structure of demand and consumption in the Latin American countries, and that a similar process has not taken place so fast or in so much depth in the composition of domestic supply and production.

This asymmetry is largely the consequence of what the transnational enterprises have done in response to their own criteria for the orientation of investment and production. But the action of the transnationals does not account for everything, and it is not a sufficient reason for the emergence of this disequilibrium between the composition of domestic demand and of domestic supply.

In point of fact, as the internationalization process is broadened and intensified, it is obvious that favourable conditions are generated or re-established for the operation of the traditional system of the international division of labour and of comparative advantages, in the orthodox sense. Hence emanate the dominant forces determining the structures of supply and demand, of which advantage can be taken, in differing degrees, both by domestic and by foreign enterprises. In any event, this occurs in conformity with the well-known potentialities and limitations characteristic of the economic policy option concerned.

Secondly, this way of channelling growth naturally accentuates the asymmetries existing in the degrees of progress that may be attained by production techniques in the different parts of the economic system. Thus, in the various branches of production, and also within one and the same sector, the dissemination of technical progress tends to speed up mainly in those productive activities which offer ‘natural’ comparative advantages and which therefore give rise to export trade. In contrast, technological progress is much slower, or non-existent, in those areas of production which serve the domestic market, and some of which disappear as a result of internationalization, or are never installed.

These aspects linked to concentration of technical progress and to structural heterogeneity in Latin American development have been discussed at length and with greater authority elsewhere,7 for which reason it seems needless to dwell on the subject here. What should be repeated is that the increasing internationalization and

5The following analysis does not imply disregard of the possibility that there are types of disequilibria—temporary and mainly sectoral— which make it possible to accelerate the rate of development, as has been shown by A. Hirschman, in The Strategy of Economic Development, New Haven, Yale University Press, 1958.

6See Raúl Prebisch, El nuevo orden económico internacional y los valores culturales, mimeographed text, October 1977, p. 21. In the larger countries of Latin America (Argentina, Brazil and Mexico), however, a closer resemblance can be seen between the structures of domestic demand and domestic supply.

7See Aníbal Pinto, “Concentración del progreso técnico y de sus frutos en el desarrollo latinoamericano,” and “Heterogeneidad estructural y modelos de desarrollo reciente de la América Latina”, reproduced in a book by the same author, Inflación: raíces estructurales, Fondo de Cultura Económica, Mexico, 1973, pp. 38 to 140. An English version of the second of these papers was also issued by CEPAL under the title of “Structural heterogeneity and styles of development in Latin America”, mimeographed text, September 1973, and was subsequently presented at the Third World Forum, Karachi, 1975.
opening-up of the economies of the region should give new topicality and great significance to the analysis of these problems and of their effects.

3. **Repercussions on external relations**

Special interest attaches to certain asymmetries which internationalization may be liable to aggravate in the foreign trade of the countries of the region.

In this connexion it can be seen, in the first place, that the internationalization patterns adopted by some Latin American economies provide, to a considerable extent, incentives to what is generally indiscriminate importation, with the aim of gradually approaching the degree of openness pursued, and also absorbing the inflow of foreign exchange generated by exports and by the capital coming in. The consideration generally prevailing in the corresponding economic policy is the desirability of imports *per se*, inasmuch as they are regarded as indispensable for 'purifying' competition in the domestic market and increasing the so-called consumer benefit.8

In line with this position, the main concern of the approach described is with the evolution of the level of imports, and no parallel importance is attached to the composition of those in prospect. Thus, it is the forces deriving from domestic demand and income distribution that dominate the changes in the structure of imports, especially when customs tariffs are relatively low and stand at much the same *ad valorem* level, and the differences among internal taxes on consumption are slight.

In other systems of economic policy, on the contrary, more balanced consideration tends to be given to the evolution of the amount and the composition of imports. As a result of previous definition of which types of goods will produce the most desirable economic and social effects, priority is accorded to imports of these items, and, likewise, the expansion of imports is deemed advantageous primarily in so far as such goods increase their participation in the total. As a counterpart, the urgency of the need to export and to receive foreign capital also depends upon the quantity of foreign exchange needed to bring in the recommendable amounts of these priority imports.

Furthermore, it should be recalled, even though but in passing, that the internationalization phenomenon accentuates certain traditional and specific characteristics of trade between developing and industrialized countries. The greater the degree of openness of the developing economies, and the lower (and more similar) their customs tariffs and exports subsidies, the stronger will be the tendency for their exports to consist mainly of primary commodities, in which possible advances in production technology and in the amount of value added in the production process are more limited and slower.9 Moreover, in some important instances, the goods exported may be non-renewable, like petroleum and other mineral products.

The inequality of trade is apparent in the fact that the imports of the economies under consideration, for their part, are increasingly constituted by industrial products and others with a high and ever-rising content of technology and of the corresponding value added. In addition, they are generally renewable goods, and the degree to which they are essential is variable.

4. **The difficult road to integration**

During the last ten to twenty years the economic integration of Latin America and,
more specifically, the various subregional systems in operation, have undoubtedly played a role of vital importance in the determination of the growth rate and pattern of the Latin American countries. There are plenty of background data available to substantiate this assertion, but this does not seem the right moment to do so.\(^{10}\)

Nevertheless, notwithstanding what has just been said, it is also true that several signs point to a possible integration crisis, particularly in respect of some of the subregional agreements. Paradoxically, this has happened despite the fact that Latin America's production potential and its diversification and flexibility have evolved towards a higher standard which seems to offer better real conditions than in the past for consolidating the integration movement and pursuing it in greater depth.

Why, then, this propensity to crisis? The reply seems to lie, to a significant extent, in the fact that as the internationalization of the Latin American economies is accentuated, forces are mobilized which are antagonistic to integration and militate against its dynamism.

The first of these stems from the conceptual antithesis that would seem to exist between the theoretical and historical justifications and origins of integration on the one hand, and, on the other hand, those factors making for increasing freedom of trade which go hand in hand with the internationalization process. When the internationalized economies assume that freedom of trade on equal terms with the whole world, without differentiation between developed and developing countries, is clearly favourable for their growth potentialities, of course they gradually lose faith and interest in integration movements. This may happen irrespectively of whether the assumption in question is correct or mistaken, and notwithstanding that in practice there are perhaps no fundamental or insoluble contradictions between what internationalization signifies and the minimal requisites for the operation of integration agreements.

A second negative force consists in that internationalization has resulted in a gradual undermining of the bases of a mechanism incorporated in some of the existing subregional agreements, which encouraged and facilitated the movement towards the integration of the subregional markets concerned and, potentially, of the whole of Latin America.

In the Central American Common Market, first, and in the Andean Group afterwards, an instrument of fundamental importance has been the simultaneous operation of a common external tariff \textit{vis-à-vis} the rest of the world, and an automatic and progressive reduction of tariff duties as between the countries members of the subregions, to the point of bringing intra-regional customs tariffs close to zero, or down to relatively low levels. In Central America this process has been carried out and completed normally, while under the Cartagena Agreement advances have been made in liberalization, and at the same time the negotiations for the determination and adoption of a common external tariff have been progressing at a rather slow pace.

Naturally, if internationalization has led and will continue leading to the establishment by several Latin American countries of relatively low and similar customs tariffs for the whole world —for example, if almost all tariffs were to drop to about 25% \textit{ad valorem} or less—, the very concept of a common external tariff to guarantee a minimum of protection loses significance and dimension. Furthermore, in such circumstances hardly enough space or room for manoeuvre is left to permit the operation of intra-regional liberalization schemes capable of having any major impact on the creation of reciprocal trade in the subregions.

\(^{10}\)For purely illustrative purposes, it is worth while to note that in 1975 intra-regional trade accounted for between 16% and 18% of Latin America's total trade. This was pointed out by the Executive Secretary of CEPAL, Enrique V. Iglesias, at a press conference held in Santiago, Chile, on 21 December 1977 (mimeographed text, p. 11).
In addition, this brake on integration is important not only for the possible progress of subregional agreements. It also seems likely —if a glance is cast at the not-very-distant future— to constitute a considerable obstacle to fulfilment of that long-standing and attractive aspiration which contemplated the establishment of a single and fully-integrated common market for the whole of Latin America: an objective which seemed nearest when it was, curiously enough, approved at the Conference of Chiefs of State held at Punta del Este in 1966.

Lastly, it can be argued that internationalization has increasingly attracted to the region foreign capital whose characteristics are not particularly favourable to intra-regional trade and integration, but do, to a much greater extent, encourage trade between North and South. In recent years external credits granted by international private banks have represented about 70% of total external loans, a proportion twice as great as in 1965 or thereabouts. Concurrently, importance has been lost in relative and sometimes absolute terms by bilateral and multilateral official loans with an integrationist content, which were linked in one way or another to the mobilization of regional trade and the execution of joint investment projects to which two or more Latin American countries were parties. A case in point is afforded by the trend towards restriction of the credit activities of the United States Agency for International Development (AID) and, on a lesser scale, those of the Inter-American Development Bank (IDB), in view of the fact that the imports which the special-fund loans granted by these two institutions were used to finance had to come from the United States or from Latin American countries.

It is true that these 'tied' loan formulae had their drawbacks, and likewise that the falling-off in the official assistance received by Latin America cannot be attributed mainly to the relative abundance of private bank loans. Nevertheless, what also seems clear is that if integration is to make progress it needs imaginative and discriminatory financial mechanisms to support it. Complementarily, as a working hypothesis it may be assumed that the region has been better prepared to put up with a smaller inflow of official loans in so far as it has had fairly easy access to private bank financing.

5. Current problems of the world economy: their effects on internationalized countries

For some ten years, between the mid-1960s and 1973, the world economy —and especially that of the central countries— enjoyed satisfactory development. The aggregate domestic product of the countries members of the Organization for Economic Co-operation and Development (OECD) increased at an average annual rate of 5.5%, while at the same time there were no major recessions and expansion was relatively stable; internal inflation in the various countries was moderate, averaging less than 5% per annum for OECD; and progress was made towards greater freedom of trade, while concurrently the industrialized countries adopted systems of customs preferences for imports of goods from the Third World. In other words, the world economy, which constitutes the principal scenario for internationalization, presented a combination of the right conditions for facilitating this process and for

11See Carlos Massad and Roberto Zahler, Financiamiento y endeudamiento externo de América Latina y propuestas de solución (E/CEPAL/1041), 14 July 1977, pp. 23 to 26. (Reprinted in the same authors Dos estudios sobre financiamiento externo, Cuadernos de la CEPAL Series, N.° 19, Santiago, Chile, 1977.)

12It may be said in passing that as early as the end of 1974 the idea was suggested in CEPAL that Venezuela might give impetus to the integration of the region, if for the payment of ‘additional’ purchases that it would effect in Latin America it were to issue ‘letters of credit’ which would serve in their turn, on successive occasions, to pay for further purchases in other countries of the region, including Venezuela itself, in which last case the financial operation of the various letters of credit issued would be closed.
preventing the introduction of certain exogenous maladjustments into the peripheral countries.

Today the situation has appreciably altered. The industrialized economies have not succeeded in regaining sufficiently dynamic and steady growth rates; after a measure of recovery in 1976, the aggregate product of the OECD increased by only 3.5% in 1977, and a similar increment is estimated for 1978. Likewise, the prospects for what remains of the 1970s and for subsequent years are not bright, since the policies that the OECD countries are adopting have not yet managed to reconcile the economic expansion objective with the restrictions imposed by marked inflationary pressures —standing on an average at about 10% per annum—, high unemployment indexes, and financial disequilibria of various kinds, such as the new and heavier cost of petroleum and of energy in general.

Furthermore, there are manifest signs that a significant reversal has taken place in the former progressive trend towards world free trade. As the Executive Secretary of CEPAL has pointed out, “in face of the persistence of the problems affecting the world economy and the anxiety felt as to the future course of events, the developed countries are finding themselves up against steadily increasing pressures in favour of the protectionist option”. In this connexion, it may be noted that the measures to restrict imports adopted by the central economies during the last two years have had an impact on several categories of products (mainly meat, textiles, clothing, footwear, steel, transport equipment and a group of electrical and electronic articles). Nor has satisfactory progress been kept up in the implementation of systems of preferences.

Accordingly, the setting for internationalization and for the growing openness of the Latin American economies is now provided by a situation diametrically opposed to that of a few years ago. And these economies, through their external relations, are exposed point-blank —more so than in other periods— to the disequilibria that the central economies are undergoing.

Thus, the region is now more severely affected by the repercussions of the slow and unstable growth of the central countries, and has to endure a higher degree of imported inflation. In addition, the increasing pro-

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14In this connexion special mention should be made of the thesis maintained by so unimpeachable a source as the Bank for International Settlements (BIS) in its last annual report, the relevant paragraph of which reads as follows: “There are, however, signs that inflation, or the fear of accentuating it, may well not be the only reason for the slowdown in the growth of some of the major industrial economies. It is possible to argue that independently of a worldwide slack in demand, a break has occurred in their growth trend. There are a number of reasons that make such an assumption plausible. The share of profits in national income has declined, and in several countries this declined started before the recession. The volume of fixed capital expenditure stopped growing several years ago. Large excess capacity has emerged in specific industries —such as steel, shipbuilding, textiles, artificial fibres, some basic petrochemicals, and so on— either because of earlier synchronized investment booms or because of the successful industrialization of a number of developing countries. Even the nature of technological innovations, which now tend towards automation or labour saving, appears to be basically different from the kind of innovation which in the past gave birth to investment booms in the electricity, motor-vehicle or petrochemical industries. Such maladjustments suggest the possibility of a slowdown of the "Konradsieff" type after several decades of virtually uninterrupted fast growth. However, the worldwide slack in economic activity makes it exceedingly difficult to assess the genuinely structural nature of these developments. Clearly, some of them can simply be attributed to the fact that the world economy, and especially that of the western industrial world, is working well below the optimal use of capacities. Problems that are basically cyclical easily appear to be structural in these circumstances. But there are so many signs pointing in the direction of genuine structural imbalances that it would be foolish for policymakers to ignore them by aiming at growth rates comparable to those of the 1960s”. See Bank for International Settlements, Forty-Eighth Annual Report, Basle, 12 June 1978, p. 8.
15See the press conference quoted above, 21 December 1977, p. 8.
16On the subject of imported inflation in Latin America, see CEPAL, Economic Survey of Latin America, 1974, United Nations publication, Sales N.º: E.76.II.G.1, Part One; and Héctor Assael and Arturo
tectionist measures referred to above endanger the development prospects of several particularly dynamic activities with great expansion potential, and, generally speaking, checkmate the very feasibility of advancing towards freer world trade.

In short, the situation described seems to constitute a considerable threat to the effective functioning of the internationalization movement in the form it has been taking. Furthermore, the Third World still enjoys only limited political participation in the various international forums, which are the place for adopting decisions on ways and means of resolving the diverse problems that are affecting the operation and structure of the world economy.

III

Internationalization and its effect on price-levels and relations in the Latin American economies

As was pointed out before, internationalization involves an increasing degree of assimilation between the domestic markets of the developing countries and the market in which world trade is carried on. In turn, since the conditions prevailing in the international market are essentially dictated by the existing situations in respect of prices of goods and services and remuneration of the factors of production in the industrialized economies, certain linkages are consequently established between prices and remunerations in the developing and the developed countries. Some of these links, and what is more important, their probable and most visible implications, will next be examined.

1. National and international prices: possible differences and modes of assimilation

In the first place, domestic prices of goods—save for those which constitute exceptions because they are suitable only for home consumption—tend to be assimilated to world market quotations, with margins of variation caused mainly by transport costs; by taxation on imports, on exports or on both; and by importers' and exporters' profits. In practice, via foreign trade, the prices of goods in the developing countries—and in the Latin American countries in particular—are affected by the more extensive and expeditious export and import possibilities that increasing internationalization affords.

In the prices of services this trend towards assimilation is less general than in those of goods, because in many instances, of course, the possibilities for trade in services are limited.

The trends that are generated in respect of the remuneration or profitability of the factors of production in the developing countries in process of internationalization are not so clearly defined, mainly because this remuneration depends in different sectors or areas of production upon improvements or deteriorations in the relative prices of goods, brought about by the increasing openness of the economy.

In any event, it is the factors of production which are in relatively short supply that have the best and most rapid possibilities of obtaining a proportionally larger increase in their real income, in keeping with the price variations that are taking place. In the developing countries, the factor in this position is capital, in the shape of machinery and equipment, financial resources, or land and other types of fixed assets.

Conversely, labour—the resource that
is comparatively plentiful—benefits less or more slowly by the internationalization process. Comparison of wages and salaries in the developed and in the developing economies, however, shows that in the remuneration of labour the difference previously existing is generally greater than in the case of capital. In this connexion, an important role is played by the very limited international mobility of manpower. Thus, only a few groups of workers with very special skills are qualified to secure a definite improvement in their real income.

If the trends described actually occur, what usually happens is that internationalization influences the functional distribution of income, reducing the share of wages and salaries, and increasing that of returns on capital. The implementation of a set of policy measures may of course counteract (or intensify) this tendency.

The process whereby wages are gradually left on the sidelines of internationalization, at least as regards the speed with which they increase, could generate some compensation for the absolute income of workers over the medium term only if the greater share of profits and other income from capital in national income were to be turned to good account in raising the coefficient of savings and investment and, consequently, the rate of economic growth.

2. Kinds of goods whose prices have a wider margin of internationalization, and effects thereof.

In examining the characteristics of the Latin American countries' domestic markets and the prices prevailing in them, especially in the early stages of the road to internationalization, it is feasible, and would be useful, to identify the instances, or the nature of the goods, in which domestic prices were or are markedly lower than the corresponding international quotations.

Special research on this subject would be of great interest and would merit high priority, and would allow the point to be fully clarified. But there are a few questions on which a hypothesis can be advanced here, even in default of statistical data to give it full support.

It seems obvious that in the Latin American countries the products that are traditionally cheaper—on several occasions too much so, with the result that their production has been discouraged—have been foodstuffs for domestic consumption, largely in correspondence to the relatively low levels of personal income and of production costs. Outstanding among these items are a number of staple crops and several livestock products, the existing differences between their domestic prices in the industrialized and in the developing countries, respectively, being very large and striking. These discrepancies may be accentuated inasmuch as in the North the domestic prices of foodstuffs are often artificially high, as a result of the policies applied there to protect farmers' income.

Once the economies have begun to grow more open, a relative rise in the price of foodstuffs is brought about in two principal ways. On the one hand, the domestic prices of exportable goods that are consumed within the country are pushed up to the level of international quotations (with the deduction of possible export taxes and transport costs), since otherwise it would be more profitable to export the entire output and leave the domestic market without supplies. Bans on exports or the establishment of export quotas are not very effective—and may even run counter to the ideology of the system—when economies are being opened up to the outside world.

In contrast—to digress a little,—among the products that are comparatively dearer in the Latin American countries, durable consumer goods have traditionally figured. For this reason internationalization causes a relative and sometimes an absolute reduction in the domestic prices of such goods. This is favourable to the evolution of the real purchasing power of the higher income groups.
Secondly, an exaggerated bias towards an agriculture-for-export model and the corresponding use of the cultivable land may lead to neglect of production for domestic consumption, involving serious food shortage problems, with the consequent rise in prices. In this connexion, an unpublished study by Professor José Mendoca de Barros, of the Instituto de Pesquisas Econômicas da Universidade de São Paulo, points out that in Brazil's case crops for domestic consumption—including beans, rice and manioc—would seem to have been progressively abandoned, with the resultant supply and price difficulties, in order to devote more land to the production of certain exportable commodities, such as soya and sugar.

The steady upward trend in the real price of foodstuffs during the phase of internationalization of the Latin American economies is a phenomenon which can be assessed, albeit fragmentarily and indirectly, through the study of other supplementary data.

For example, in a study on inflation in Latin America, it was noted that during the period 1970-1975, in almost all the countries of the region, the food item in the consumer price index showed a persistently and significantly steeper rise than the overall index. Of course, this change in the price system was due to several factors—which this is not the place to discuss—but in any event the clearly-defined and recurrent trend recorded during a period of increasing internationalization is symptomatic.

It is also worth while to refer to a comparative study of food prices in Chile and the United States which was carried out in the second half of 1976. On this occasion it was shown that except for beef and one or two kinds of fruit and vegetables, food prices were the same in Chile as in the United States, and in many cases considerably higher. Among the most striking examples of the latter tendency were poultry and eggs, and virtually all food products with some degree of processing.

Given confirmation of the hypothesis that greater openness has pushed or levered up domestic food prices to relatively higher levels in the Latin American countries, it would be important also to trace what proportions of income the basic subsistence of the population comes to represent. Such an evaluation would be particularly relevant for the salaried and wage-earning population, since these are probably the groups whose income has been the slowest to rise.

It should be added that in contrast to what has happened in the industrialized countries, in the developing countries the introduction of certain technological advances whereby the production cost of certain kinds of foodstuffs can be reduced has not been sufficiently intensive. Products that are relatively cheap in the central countries—e.g. poultry, pork and their by-products, eggs, and milk and its by-products—

17 Quoted in the São Paulo newspaper Gazeta Mercantil, 10 December 1977, p. 9.
18 See "Los precios en el ascensor", Ercilla, Santiago, Chile, 3 November 1976, pp. 21 and 22.
19 An article recently published by Irving Kravis, Alan Heston and Robert Summers, "Real GDP per capita for more than one hundred countries", Economic Journal, June 1978, pp. 215 to 242, sheds additional light on the subject, by making it possible to compare data on two non-Latin American developing countries. A comment on this article in The Economist, 22 July 1978, p. 70, holds a note of surprise: "Between two countries with the same level of GNP per head, prices are usually lower in one which is most isolated from the impact of world prices. The more open the economy, the more prices are likely to be dragged up to world levels. This second assumption is surprising. The reverse might be expected: does not protection raise home prices? No, the results from the ICP (International Comparison Project) suggest that large, poor countries do have lower prices than small, more open ones at similar levels of income per head. In India, for example, the price level for all components of GDP was about 30% of the American level in 1970, while in Kenya it was 47%. Both had roughly the same level of GNP per head, but India was a much larger and less open economy." Probably the difference identified is basically due to the behaviour of food prices.
are among the dearest in the underdeveloped countries. Accordingly, the element of compensation in the average cost of food which is characteristic of the industrialized world has been lacking in Latin America.

3. International prices and the instability of established price relations

When consideration is given to the price movements that internationalization causes in the developing economies, and the new price relations thus established, it is generally assumed as a corollary that the new price signals will have a certain measure of stability and will set a course without erratic fluctuations towards a more favourable allocation of resources. The truth is, however, that in the case of many agricultural commodities their international prices have suffered and will probably continue to suffer sharp fluctuations.

As regards agriculture, since the production periods of most agricultural commodities cover at least a year, an important and highly variable determinant is thus introduced which influences decisions as to the different crops that should be grown in each period. In addition, even if the fluctuations of international prices are closely followed, there may be a high proportion of uncertainty in the economic results achieved, inasmuch as the production flows materialize a year (or more) after the adoption of the decision on what to produce, and by that date the price signals may well have changed their direction.

In recent years there have been many examples of primary commodities for which international quotations have fluctuated considerably. For illustrative purposes it is worth recalling what has happened with respect to the prices of soya, wheat, maize, sugar-beet and sugar. Following the variations in the prices quoted for these crops, in some countries of the region the composition of agricultural production has undergone highly significant changes which have not always proved favourable, in terms of the normality of domestic supplies, or of export earnings, or of both.

In face of these probable effects of internationalization and the higher social costs that may derive from them, it is of interest to evaluate whether it would not be preferable for agriculture to be guided by criteria more stable than the mere consideration of international prices.

Naturally, there would be no question of establishing domestic prices absolutely divorced from what is going on in world markets. Rather, the line of action suggested would be to operate with a maximum-minimum price interval for which the point of reference would be the world market price of the agricultural commodity concerned. As a complementary policy, the authorities could orient the movements of domestic prices through the application of a system of taxes and subsidies.21

IV
An attempt at recapitulation

It has been hinted in this article that internationalization is something more than a change in the degree of openness of the Latin American economies, especially for those in which the process has taken place in greater depth. Rather does the concept imply a different development pattern, in which essential importance attaches to a progressive assimilation or overlapping between the internal market of the developing...

21 To look no farther, in Colombia the price policy followed for coffee is dictated essentially by the idea and necessity of mitigating in the internal economy the sharp periodical fluctuations in world quotations for this commodity.
countries and the market in which world trade is carried on.

Generally attention is drawn to the positive implications of internationalization. On this occasion an attempt is made to do the opposite, that is, to identify and examine its primarily unfavourable effects, so that a more balanced picture may be formed of what has been happening in the growth processes of several countries of the region.

To this end, consideration is given, on the one hand, to the trends generated by internationalization in respect of the orientation of development and the composition of domestic demand and supply. Within this approach it is noted, in the first place, that the internationalized developing countries have begun to face, before their per capita income level warrants it, problems and characteristics that have been and are proper to the industrialized economies, given their high per capita income.

Secondly, some asymmetries are analysed which may be introduced into the development pattern fostered by internationalization. One of these consists in that the modernization induced in the structure of demand and consumption has not been accompanied by a similar change in domestic supply and production. Another is to be found in the differing degrees of progress that may be attained by production techniques in the various parts of the economic system. Furthermore, several asymmetries may occur in the composition and operation of the internationalized countries' foreign trade.

Thirdly, it is pointed out that internationalization may have mobilized forces antagonistic to the Latin American integration process and liable to impair its dynamism. In this context three factors have been singled out: (i) the conceptual antithesis that seems to exist between the basic principles of integration and the positions implied by internationalization in respect of increasing freedom of foreign trade; (ii) the loss of effectiveness of the common external tariff mechanism in the new commercial context of the region; and (iii) the decrease noted in the inflow into Latin America of official external loans to encourage integration.

Fourthly, it has seemed of interest to point out that because of their steadily increasing openness the Latin American economies are now harder hit by the repercussions deriving from the present slow and unstable growth of the central countries, as well as from the inflationary pressures that are affecting them.

Moreover, the article considers the problems that arise when, in consequence of internationalization, changes take place in the existing levels and structures of domestic prices and of the remuneration of the factors of production in the developing countries. From this angle, the observation is made, in the first place, that salaries and wages are probably the principal price or remuneration in the economic system which does not tend to undergo short- and medium-term adjustments to international levels, or does so, if at all, on a selective basis and at a relatively slow pace.

Secondly, the idea is suggested that in the developing countries the traditionally cheapest products are foodstuffs for domestic consumption, and that therefore it is their prices that show a wider margin of increase because of internationalization. This would seem to have pushed up the cost of the basic subsistence of the population and increased the proportion of income which this represents among the groups that have seen only a slow change in their earnings.

Lastly, in analysing the indications for the allocation of resources given by international prices, it is argued that they may be erratic and fluctuating, especially in the case of agricultural commodities: In the past few years, indeed, there have been marked changes in the international quotations for several primary commodities, whereby an element of instability has been introduced into the periodical decisions on the composition of agricultural production in the more openly internationalized Latin American countries.
In short, several reservations with respect to the internationalization process are noted in this review, which, of course, is far from exhaustive. If these reservations are valid, it will be useful to bear them in mind for the evaluation of the process itself and, possibly, for the formulation of policy measures which might attenuate some of its consequences.
Economic Policy: Science or Ideology?

(Part One)

Carlos Lessa*

So many different criteria are used to define the nature of economic policy that when analyzing them the author feels that he is in the midst of a thick tropical jungle. His objective is nevertheless to present them in a systematic and orderly fashion, primarily in order to help those venturing into the jungle for the first time.

This is no easy task, even when, as in the case of this article, the objective is merely to order those criteria which the author classifies under the label of 'official economic science', since the latter is not a clear, well-defined body of theory but rather one full of variations and nuances; variations caused not only by the shifts which have occurred in the course of a long intellectual history but also by the adaptations made necessary by major economic and political changes.

At the start of the first half of this article—the second half will appear in the next issue—the author presents and criticizes the approach of L. Robbins who, he believes, represents the high point of a process of ‘asepsis’ in economic policy which began in the latter half of the last century. The critical analysis of the various theoretical attempts to transpose and reformulate the ‘Robbinsian formula’ in order to apply it to economic policy constitutes the heart of the article; with a wealth of quotation the author outlines positions within the ‘official science’ and establishes similarities and differences between them as concerns key problems such as the nature and functions of the State, the ends and means of economic policy and their technical and political aspects, the role of the economist and his claim to ethical neutrality, and others.

Introduction

"Lasciate ogni speranza, voi ch’entrare".

(Dante)

Our purpose here is to try to reconstruct the contemporary discussion of the concept of economic policy. It is not our intention to present and systematize it in its entirety, which we know to be an impossible task. We believe it is possible, however, to identify the main lines of thought so that they can be analysed, which has, at least, the merit of showing the state of perplexity prevailing on the subject.

We are entering a tropical forest: darkness, trees and bushes covered with parasitic growths, choked with creepers, and no safe paths. It is exuberant, chaotic and unyielding, this conceptual and epistemological jungle of political economics; economic theory; economic analysis; economic science; economic policy; deductive and/or empirical and positive and/or normative science; economics (taxonomy or theory?); meta-theory; formal and/or dialectic logical method (what instrumental inference is valid?); economics reduced to economic policy; economics and economic policy as adjacent or overlapping territories, or as distant countries with different languages; ideology and/or science; economic policy as applied economics, as art or merely as policy; rational, scientific, empirical economic policy; models of various types, and so forth.

Texts proliferate, authors overlap and libraries are bursting. As early as 1891, Keynes père—paraphrasing Voltaire’s “ninety per cent of arguments are settled with a dictionary”—maintained that the question whether political economics can be considered a positive science, a normative science, an art, or a combination of all three, is, up to a point, merely a question of names and definitions, thus adopting a sceptical position well before the present terminological confusion came into being.

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In our search for the way out we shall walk in circles and, losing our bearings, retrace our steps, covering swampy ground, stumbling over roots and hearing the underbrush crackle under our hesitating feet. We shall have to climb the tallest tree to discover our bearings. But which tree is the tallest? We entered the jungle prompted by the curiosity of the callow traveller and seduced by the beauty of the forest seen from a distance. Now that we are in it, we see the mould, humidity and darkness; what has become of that magnificent view?

Sticky things, deceptive slippery ground, buzzing and stinging insects — this is the jungle. Inexperienced, we do not know how to find food; famished, we take advantage of only a fraction of what it is offered. We have not been on a 'jungle survival course': on the contrary, we were told that it was a pleasant pastoral wood.

The denizens of the forest —buzzing, soft, hairy, stinging creatures— bewilder, nauseate, frighten and disturb. We entered the jungle armed with Professor Samuelson's Introduction to Economics and the goodwill of a boy scout camping in the shadow of Baden Powell. And here we are.

There is no sense in retreating or advancing. The tropical forest with its rapid process of regrowth removes all traces of our footprints. We walk in search of a clearing or better ground and renewed hope keeps up our spirits. Little by little and with great effort we shall gain experience as woodsmen and find better food; the dim light will sharpen our vision; the buzzing and biting will bother us less. Shades, smells and sounds will come to have some meaning for us.

It is quite possible that we shall find no way out of the forest, although there may be several. This possibility does not frighten us. If we can adapt to our new surroundings, we will have a system to guide us in the jungle — we will know how to survive. We will get our bearings and learn to see the wood in spite of the trees; and we shall always have the possibility of living off the land, and of perhaps some day finding a way out.

The effort to cover the debate on economic policy concepts may lead to injustice being done to a particular text. Without attempting to shirk our responsibility, we lay the blame in part on the authors themselves who often take no pains to clarify their positions and are sometimes confusingly eclectic, or even fail to state their views explicitly. In the outline attempted here the references to the authors are included as a preliminary effort to illustrate 'market' positions, rather than to situate the author in a specific position following an exhaustive appraisal.

We shall attempt to present a tentative classification of the various positions taken on the concept of economic policy, placing them in relation to a frame of reference to be provided by 'official economics', understood here to mean the group of intellectual constructs designed to serve ideologically, as a panegyric or under the cloak of science, in defence of the status quo or to propose an internal modus operandi to increase the system's efficiency. The limits of this category are relatively undefined, since they even include proposals and demonstrations of the need for perfecting the system, not to mention reformist positions of an apparently radical character. Moreover, the excessively wide-ranging search for a modus operandi may lead some sections of 'official economics' to cease to be linked to a given system. Finally, as is well known, the position of 'official economics' develops in line with the changes which occur in the course of the historical evolution of the system it serves.

The choice of 'official economics' as a guiding principle in organizing our attempt at an appraisal does not establish a clear, rigidly defined central corpus. 'Official economics', bedecked in its finery, is in fact fraught with many doubts. In order to freeze history as the promise of change, it is obliged to perform prodigious juggling acts, and has serious problems in reconciling its
two commitments; apologetics are often incompatible with action; the Academy is a coveted ship and its crew fiercely competitive; no system is homogeneous, its dominant groups have their differences which are reflected in the content of 'conventional economics'. As history never stops, the realities and requirements of the system necessitate a periodic revision of the corpus of 'official economics'.

'Official economics' is slow to keep up with those changes and resists the frequent revisions and adjustments. In desiring to arrest the march of history it collides with it, and this collision gives rise to tremors and earthquakes on official ground. The mere succession of names —political economy, economic science, economic theory and economic analysis— reveals in its semantic transpositions the constant mobility of ‘official economics’. These lexicological 'revolutions' reflect the way in which ‘official economics’ is performing its dual function, and are highly significant as representing a change in the angle of approach to economic matters.

I

Robbins: A Promise of Epistemological Tranquility or a Vacuum

"Nothing is more conducive to peace of mind than having no opinion to express".

(Lichtenberg)

For the purposes of this section, Robbins furnishes a highly useful frame of reference for the classification of the economic policy concepts in vogue. In the third quarter of the nineteenth century 'official economics' was passing through a period of adjustment. Classical and neo-classical thought co-existed, the former in process of going into honourable retirement, and the latter winning its academic palms.

In 1875, Cairness, in The Character and Logical Method of Political Economy, suggested a demarcation of the object of economics and its scientific programme of work, which retains something of the classical tradition: "What astronomy was to the phenomena of celestial bodies, dynamics to phenomena of movement, chemistry to the phenomena of the functions of organic life, political economics was to the phenomena of wealth. It proposed laws according to which these phenomena co-exist and are interrelat-

ed; in other words, it set forth laws governing the phenomena of wealth."2 In 1874, Walras, in his Eléments d'économie politique pure, formally presenting his system of general equilibrium, that synthesis of neo-classicism, says that 'pure economics is, in essence, the theory of the determination of prices in a hypothetical system of absolutely free competition'. Point and counterpoint: the search for laws governing the production and distribution of wealth, and the aseptic determination of the conditions of equilibrium.

Marshall, the master of partial equilibrium, published Principles of Economics in 1890. In successive editions revised by the author this was to be, up to the beginning of the 1920s, the neo-classical bible. In the eighth edition (1920) he opens with the words: "Political Economy or Economics is a study of mankind in the ordinary business of life; it examines that part of individual and

2Quoted by W. Stark, in The History of Economics in its Relation to Social Development.
social action which is most closely connect-
ed with the attainment and with the use of
the material requisites of wellbeing. Thus it
is on the one side a study of wealth, and on
the other, and more important side, a part of
the study of man.” Marshall’s summary is
strongly reminiscent of classicism.

Cassel’s emphasis on the scarcity prin-
ciple and his rejection of any theory of value
appeared in 1918. He argued that the econo-
my is dominated by the principle of scarcity.
Since the means for satisfying needs are
scarce, needs should be limited and the
fulfilment of demand should be reduced to
the point where the existing means suffice to
satisfy those needs. In an exchange econo-
my, therefore, the scarcity principle consists
in the need to co-ordinate consumption with
a scarce supply of goods. This is the task of
price formation. Economics is a science
concerned with measurable quantities and
their mutual relations, and with conditions
of equilibrium conceived in quantitative
terms.

Thus, ‘official economics’ enters the
twentieth century in three forms: economics
as the activity of mankind which contributes
to his material well being; economics domi-
nated by the universalizing and timeless
principle of scarcity; and economics geared
to research on the systems of forces in
equilibrium.

Robbins combined these three ap-
proaches in a definition of economic science
which he felt would give it definitive epis-
temological status: “Economics is the sci-
ence which studies human behaviour as a
relationship between ends and scarce
means.” He considered that his definition
of the field of study of economics solved the
awkward problem, implicit in the contempo-
rary definitions of economics, of distinguish-
ing between actions which do and actions
which do not contribute to material well-
being in the obscure and ill-defined field of
‘wealth’.

According to Robbins, a question which
could not be answered by existing contem-
porary classifying concepts that sought to
distinguish between ‘economic’ and ‘non-
economic’ aspects was, “how are time and
means divided between ‘economic’ and
‘non-economic’ activities?” This question
always relates to welfare, and any answer
would, in his view, place the universe of
human action in the economic sphere.

This seemed to Robbins an inexorable
conclusion at a time when neo-classical
‘official economics’ considered the problem
of the utility of labour, rent, etc., as a central
element in determining equilibrium. Since,
therefore, all human action may be studied
by economics, there would be no particular
field to be labelled as economic, but rather
an economic aspect to be analysed in all
human activity. Wealth, with the essential
attribute of scarcity and the search for well-
being, always involves an interrelationship
between ends and means. The nature of this
interrelationship, and the conditions for it to
be efficient, form the specific aspect and
scientific goal of economics. Robbins sug-
gest a goal which he assumes is compatible
with the desire for maximum rationality in
all human action. Man always chooses the
most efficient ends-means relationship, in-
dependently of time and space. Reflection
on economic questions, in the field to which
Robbins refers in particular, assigns to eco-
nomics the function of satisfying the demand
for efficiency inherent in every human ac-

3A. Marshall, The Principles of Economics, Lon-

4G. Stavenhagen, Geschichte der Wirtschaftstheorie, taken from the Spanish translation by Adolfo

5L. Robbins, An Essay on the Nature and Signifi-
cance of Economic Science, 1932.
tion. This 'demand', which must be satisfied by economic analysis, is based on the scarcity of means.

The nucleus of economics, i.e., 'abstract scarcity', is at once useful and limited in relation to needs. The objective of establishing the social laws of production and distribution of wealth is a long way off.

We have chosen this rigorously empty Robbinsian definition on the grounds that it provides a meaningful framework for a long process of erosion and curtailment of the cognitive pretensions of political economy as a science.

The great classical thinkers carried out difficult theoretical gymnastics in order to construct theoretical systems explaining capitalism, shedding light on its structure and movement. The neo-classical liberal thinking of Nassau Senior and Marshall undermined and impoverished the classical construction, proposing that economics should be an instrument for discovering knowledge, and no longer for the sake of knowledge itself. Marginalism declined to reveal the laws of production and distribution of the system in order to construct models of partial and general equilibrium.

Inasmuch as history refused to adhere to the reality of its constructions, neo-classicism proposed for its models a heuristic and axiological value: the formulation of a formal structure on the basis of assumptions regarding initial conditions, and the proposal of behavioural axioms as a frame of reference. This erosion of the epistemological field of political economy finds its high-water mark in Robbins. Not because at that time the process of erosion was reversed, but simply because Robbins' book appeared at a time when capitalism was facing its greatest crisis. When the disenchantment of neoclassicism was at its height, Robbins proposed a formal and universal vacuum. A more perfect flight from reality cannot be imagined.

We shall see in Part Two of this article that this process of erosion continues to eat away at economics, one school of which currently accepts a pre-scientific 'black box' of theoretical instruments, consoling itself with the 'predictive power' of its models.

This is a strange fate for political economy as an 'official science'. It is frequently admitted that the historical development of a science progresses in stages from fragmentary empirical regularity to partial constructions, and lastly to a theory to explain a system or order of phenomena. Political Economy as an 'official science' was at its theoretical high-water mark at birth, after which it lost substance throughout two centuries, at present being confined to the position of a 'tool box'. This is the sad story we come across as we pass through the jungle of economic policy.

Neo-classicism, by the giddy slopes of the study of equilibrium, arrives with Robbins at the universal and strictly formal. An economic aspect exists in all human activity. This aspect —this dimension— is what should be analysed. In the ends-means interrelationship lies the whole question of choice or option. Since man, and by extension society, is rational the choice should be an efficient one. The problem of each individual and each society is to maximize a specific result, according to a given availability of means. Napoleonii, commenting on Robbins, points out the necessary and sufficient conditions for the use of the adjective 'economic': varied goals, a hierarchy of goals, limited means, and means with alternative uses.6

Choice is now considered the only unifying principle in economics. Robbins' definition of economics as the science of human action has a series of implications. First, economic analysis is completely neutral as regards goals. Centred on an efficient

6C. Napoleonii, Il Pensiero Economico del '900'.
co-ordination of means, it is positive (sweet illusion) in the sense that it is free of value judgements (introduced in the objectives), about which it gives no opinion, merely accepting them as given. Secondly, economic analysis is deductive. As regards theoretical research, it will deduce propositions on the basis of universal postulates accepted aprioristically. The propositions deduced will necessarily be valid and have no empirical content. Thirdly, the technical contribution of economic analysis is clearly distinguished: technical knowledge bears out the ability of the means to attain the ends. Economics accepts this proof and assesses the means in terms of their scarcity in relation to the goals chosen.

The formalism and apriorism of Robbins were immediately called into question.

Seligman summarizes the criticism as follows: "The best that could be said about Robbins' methodological presentation was to point to it as a rigorous exercise in economic formalism but one which necessarily prevented the economist from talking about important problems. Choice became an abstract act of behaviour: genuine judgement was impossible because no comment was allowed on how choice was conditioned. As Launcelot Hogben once remarked, rational judgement on choice would require far more knowledge than economists were willing to admit. Perhaps that was why they defined choice as choice. The outcome was so general a formulation of economic science that equilibrium was simply a balance of forces. And economics became a peculiarly depraved kind of scholasticism, a 'barren dialectic of scarcity', utterly devoid of substantive content. In short, Robbins wanted to create an economics so precise in definition and shape, so formalistic, that its very claim to scientific status was threatened". Which did not prevent him from being elevated to the peerage.) Some clues to this mystery are furnished later in this article.

Morgenstern, in 1937, attacked Robbins' position on the score of empirical content: the few authors who deny economics the character of an empirical science in an attempt to ascribe to it the higher value of an a priori science, are faced with an unenviable difficulty, since on the one hand they neither can nor wish to deny the progress of theory, while on the other hand they see in that progress a serious challenge to the validity of the inferences which refer to economic policy based on these so-called a priori proposals. An a priori economic theory simply does not exist.

The criticism of Robbins' formalism is summed up by Godelier: economics is no longer a particular area of social life; rather it is an aspect of all human activity with the condition that it contrives to 'economize' its means. All directed activity becomes, strictly speaking, economic, at least in essence. Therefore, none in fact remains economic, and Political Economy dissolves in a general theory of action in which there is nothing to distinguish it from theories of politics, religion, etc. Thus Robbins ends a long process of economic 'asepsis' initiated in the second half of the nineteenth century.

Robbins, however, did not confine himself to the strictly formal level. To consider economics as a deductive science constructed in terms of universal a priori postulates meant that the postulates were selected on the basis of common sense. As regards consumer theory he postulated the existence of preferences susceptible of being ranked in order of priority, explicitly dispensing

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8 M. Godelier, Rationalité et Irrationalité en Economie.
with the support of any psychological theory; and as regards production theory, he admitted as common-sense postulates the existence of various factors of production and the law of diminishing returns. Even though it involved accepting these propositions solidly based on common sense and without axiological connotations, in accepting these postulates—a consumer/producer dichotomy, preferences (indicating ends), a triad of factors of production and diminishing returns (as means)—Robbins was essentially operating with the neo-classical ideology.

Although his theory lacked content and was severely criticized by his neo-classical colleagues, a legion of Robbinsians existed, and still exists; and everything seems to indicate that it will continue to exist in the future. This is because, as stated by Lowe, “there is only one set of modal micro-goals or action directives which is compatible with the action patterns formulated by the Law of Supply and Demand” and “no concern with any final goals, be they prestige based on conspicuous consumption or preference for the status quo of provisioning, or with any other source of ‘satisfaction’, may modify these modal goals”.

What does this set consist of? Lowe explains that “the label under which these modal goals appear (as a consensus of the classic and modern market theory) has undergone many changes—from the classical ‘desire to better one’s conditions’ to ‘profit motive’, ‘maximum principle’, etc. We shall subsume this two-pronged action directive—maximization and minimization—under the concept of ‘extremum principle’ ”.

Lowe shows that the ‘extremum principle’ is attractive because of its formalism and because it provides a basis for determining solutions (of course, other conditions also being necessary). The wide acceptance of the Robbinsian definition shows that, despite its obvious vulnerability, it fits like a glove all those who construct economic theory as a system of static equilibrium. Since it is formal and meets a logical necessity of many thinkers, to the extent that economics—like Pontius Pilate—washes its hands of ends, the Robbinsian formula admits of many contents and has everything (or nothing) to please all shades of opinion.

A chemically pure arch-liberal like Von Mises, who reduces economics to two complementary sciences—praxeology, a science of human action, and catallactics, dealing with market situations—is an enthusiastic Robbinsian.

Von Mises says that the object of praxeology is to investigate the categories of human action. To apprehend mentally as many praxeological theorems as may exist, the interested party need only bear in mind the essence of human action. In order to understand the theorems fully, no experiments are necessary. We should concentrate and reflect on the structure of human action. Like logics and mathematics, praxeological knowledge is within us; it does not come from outside. It is a mistake to think that there is a historical way of undertaking economic investigation or that purely theoretical economics exists. We have economics on the one hand and economic history on the other. The two disciplines should never be confused. Every economic theorem is valid and exact when the circumstances envisaged by it are present. Praxeology—and therefore economics—is a deductive discipline. Its logical origin stems from the basis from which its deductions are derived: the action category.

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11Ibid., pp. 36-37.

At the other extreme, Lange—a socialist at heart and a neo-classical in his thinking—has also joined the Robbinsian Legion. Lange teaches us that man's economic activity is a conscious and intentional activity. Economic stimuli determine the objectives of economic activity, and the reaction to those stimuli is the adoption of means to serve the attainment of those ends. Economic activity therefore consists in achieving clearly-defined goals through the use of specific means. After stating that, in capitalism, microeconomic rationality arose at the enterprise level, Lange establishes that in socialism such rationality extends to the whole social sphere. In this passage—where he states his ideological choice—he announces the predominance of the economic rationality principle defined as follows: according to this principle, in order to attain a goal to a maximum degree it is necessary to act in such a way that a given expenditure on means produces a maximum degree of attainment, or a given degree of attainment is achieved with a minimum of means. Since rationality has become the characteristic feature of many sectors of human activity, a problem has arisen, i.e., that of discovering the common denominator of all sectors of rational activity. This gave birth to the science of rational activity—praxeology—which can also be defined as the logics of rational activity.

Thus Robbins, as commander of the foreign legion flocking to the flag of formalism, recruits and brings together troops acting with such different motivations; Von Mises and Lange marching together (a fascinating spectacle). The formal attraction of the Robbinsian formula is combined with its powerful appeal at the operational level: at first sight it permits the 'professionalization' of economic thought. Godelier states that formal theory finds its apodicticity demonstrated in the fruitful results of operational research, which has done so much to improve in recent years the practical instruments of economic management; however, operational research is not a branch of political economy, but rather a set of mathematical processes which make it possible to maximize or minimize the value of a function-goal. The most important results of the rational management of an enterprise were obtained by economists, mathematicians or engineers who explored the possibilities of analysis offered by a certain number of old mathematical instruments (infinitesimal calculus) or more recent ones (linear programming, non-linear programming, game theory, etc.).

The appeal of the 'operationalization' or 'professionalization' effected under the aegis of Robbinsian science is by no means inconsiderable. It permits the economist to don the cloak of a modest and responsible operator, wearing the badge of science; it affords him the sensation of being an engineer; it enables him to escape Byzantine debates or their disturbing alternative, i.e., trying to grasp the whole picture; it demarcates a field of action. In exchange, he has to renounce his critical faculties. Many considered this a good bargain; many will certainly regard it as such in the future. There will always be a market for Lord Robbins.

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13 O. Lange, Political Economy.
14 Ibid.
15 Ibid.
16 Lange states in his book that he is not a member of the Robbinsian legion and also denies sharing any common ground with Von Mises.
17 M. Godelier, op. cit., pp. 23 and 24.
II

The Naive Transposition of the Robbinsian Formula

"...And although verily Saint John saw in his visions the strangest monsters, he never dreamt of a creature more horrible than some of his glossarists..."*

(Chesterton)*

The Robbinsian formula, whereby economics is centred on the rational (efficient) articulation of ends and means, reduces the critical dimension of political economy to an arid 'dialectics of scarcity'. The formal and the operational exert a powerful fascination —good business is attractive. Thinkers, like butterflies, flutter around its lure. Although they very quickly burn their wings —there is a trap in the supposedly neutral territory of means— this does not prevent the treacherous flame from constantly attracting new clouds of lepidopterous thinkers.

The term “Economic Policy”, in Silvio Bocchi’s Dizionario de Economia Política, is defined as that part of economic science which studies the forms and effects of State intervention in economic life for the purpose of attaining certain ends. According to this definition, therefore, economic policy (a) is not conceptually distinguished from economic science whose analytical methods and logical systems it uses; (b) studies the forms and effects of State intervention in economic life with a view to clarifying whether such intervention has been, or will be, suitable for attaining the goals which the State was or is attempting to achieve through it; (c) adopts such goals as the ‘givens’ of a problem on which it believes it should pronounce no moral, political or, in brief, extra-economic judgement. Thus conceived, economic policy, like economic science, is a science of theorems or a philosophy of the ‘possible’. It consists, more precisely, of a set of uniform facts or laws related to action by the State.18

It is not only the perusal of dictionary definitions that leads to intellectual hara-kiri, however. This is proposed in all seriousness in the textbook for the law and introductory economics courses used in French schools. Raymond Barre produced the following gem of thought in 1956: “On the basis of the definition, which we accept, that political economy is the science of administering scarce resources within a human society, it is possible to determine the field or content of political economy. It comprises four series of operations: 1. 2. 3. 4. The orientation of economic policy is a function of certain political or social goals. The economist, as such, is not expected to pronounce an opinion on these goals. He must assume them as given and can then, with as much objectivity and indifference as if dealing with a completely different subject, form judgements on the fit or lack of fit between a goal and an institution, and on the compatibility or incompatibility between the goal and the means to be used”.19

Both these definitions simply transpose the Robbinsian formula to economic policy, which is action by the State, which as an agent, pursues ends and disposes of means. Like any agent, it aims or should aim at rationality; and thus it is or should be

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18 S. Bocchi, Dizionario de Economia Política, Milán, Editorial Castilla, 1956, p. 1353. The definition of Economic Policy in the Dizionario de Economia Política, organized by Claudio Napoleoní, Milán, ed. di Comunità, 1956, is identical to Bocchi’s definition. In Italy, where the Chair of Political Economy has a longer tradition, this seems to be the official definition. G. di Nardi, Lecioni di Economia Politica, Bari, 1950, also supports this definition.

interested in an efficient articulation of ends and means. That is what we are here for. We are specialists in efficiency in action. As modest operators we pronounce no opinion on the goals; but we do have a lot to say about how to attain them efficiently.

There is one small problem, and in order to pinpoint it let us hear what Torres, another Robbinsian, has to say: “We have seen that the nature of things has caused a horizontal split in public economic activity and has also created a division of labour which manifests itself in two clearly differentiated positions: the establishment of goals, which is the political sphere, and the discovery of means or measures to achieve them, which is the task of the economist. This split, however, has not led to the formation of two watertight compartments because, since one of them is the economic problem, there must at least be certain permeable areas of mutual influence between the compartments... The theory of public economic activity can be elaborated from many perspectives, but the most direct is to consider it as the most important aspect of economic co-ordination. In actual fact, the fundamental problems that need to be solved are problems of co-ordination: co-ordination of ends and co-ordination of means”.

Torres sensed —albeit obscurely— something which escaped both Bocchi and Barre. The State pursues ends and possesses means. The articulation of ends and means at the State level raise a problem of ‘co-ordination’ of ends and co-ordination of means.

Robbins, as an old-style liberal, put forward his definition having in mind the agents of neo-classical microeconomics: the consumer, the enterprise, the owner of the factors of production, etc. He did not think of efficient action by the State, since, for an old-school liberal, the State is a necessary evil whose activity in the economic sphere should be reduced to a necessary minimum, although it plays a vital role as an institution for enforcing the rules of the game. And what is the name of the game? The answer is the market, or the free play of market forces. In this game the State has a small —preferably a minimal— direct economic participation (its importance is institutional, as the executive arm of the legislator).

When the definition is naively transposed to the theory of economic policy, without what Professor Knight considers of fundamental importance —adequate ethics and sociology, in a broad sense— economics has little to say about policy; in other words, without the recommendation of a minimum degree of State intervention, the problem arises of co-ordinating ends and means.

Professor Taylor, another Robbinsian, states in a revealing paragraph: “The economic theories and rules typical of fascist systems can hardly be of interest to economists as such, since they lack virtually all consistency or rationality from the economic point of view. The essential aims of fascist régimes are not economic —to ensure that the people’s resources and productive energy should be utilized or applied as efficiently as possible for the general satisfaction of all their ordinary needs— but rather non-economic or extra-economic, political, military and socio-cultural: to make the economy or system of all the activities or use of economic resources subsidiary to the State machine and those vague and variable goals striven for by the authorities in the name of the national will for power and greatness”.

At this stage the reader is probably confused. How can Knight and Taylor be considered Robbinsians? The former clowns for ethics, while the latter invalidates

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the aims of the Fascist State. If, as Robbins maintains, economics is neutral with respect to the goals, how can the Fascist State be condemned for pursuing non-economic goals? Taylor and Knight are not true followers of Robbins, although, Taylor defined economic policy as if he were.

Upon analysing Taylor, Knight and Robbins, they are all found to agree on the following points:

a) The neo-classical microeconomic agents face an 'economic' problem: how to articulate ends and means according to the 'extremum' principle;

b) 'Theory', as a deduction of universal propositions which may be confirmed on the basis of specific explanatory principles not given immediately, admits that those agents are rational (in the sense of demanding efficiency), and economics can indicate to the aforementioned microeconomic agents how to attain, under specific conditions, 'maximizing' positions with respect to whatever goals motivate them — the microeconomic agents can choose any goal;

c) We can now anticipate the maximization conditions for each and every one of the microeconomic agents: the well-known conditions of perfect competition;

d) The State is an institution and not an economic agent; as an agent it would distort those conditions, and its sole basic goal should be to permit the free play of market forces.

Therefore Robbins, if consulted by his enterprising legionnaires who take his definition and apply it to the theory of economic policy, would caution them as follows: "Beware of the 'co-ordination' of State action, for the State is not an agent. I do not countenance this transposition: my theory is valid only for rational agents, i.e., micro-agents, and not for a macro-agent, i.e., the State, which besides being potentially irrational would invalidate microeconomic rationality through its excessive weight". I am afraid, however, that many of his followers did not consult him. The reader will have to exercise a little patience, since we shall revert to this point later.

For the time being we shall focus attention on other problems underlying the spread of the Robbinsian 'innovation' and its naive transposition, keeping as a reference the definitions of Bocchi and Barre.

In the first place, there is noticeable emphasis on the political-technical division of labour. The political level administers power and establishes the goals. The economist, with his specialized scientific knowledge of 'economizing' means, fulfils the neutral and objective function of indicating the relative 'economicity' of the available means. The politician, if rational, will take the specialist's advice and choose the best possible means. The technical level thus provides a rational, scientific foundation for the articulation of ends and means, the glory and onus of decision-making falling on the politician. The economist preserves a scientific neutrality and, like Pontius Pilate, does not sully his hands. Science remains pure and inviolate. Meynaud expresses the point to perfection: "The establishment of goals of government activity is a complex task. Is the economist equipped to play a part in this process? Some might argue that economics should guide government action and try to produce evidence of this. However, by taking positions, the technical expert compromises his discipline in the eyes of public opinion and of governing circles. He runs the risk of discrediting it through errors and questionable assertions; in any case, he makes it controversial. Therefore, the economist has a definite interest in defining the limits within which, in his individual performance, he can legitimately invoke science or, in other words, the mantle of science".

Here is a morality of considerable appeal: the doctrine of a separation between ends and means, of a divorce between

24J. Meynaud, L'Elaboration de la Politique Economique.
science and technology on the one hand and the formulation of goals and values on the other. Baran says that to abstain from transposition is a moral principle which disarms the intellectual as a social critic. The establishment will award its seal of approval to a well-behaved intellectual; the intellectual, free from uncomfortable reflections on the rationality of everything, eases his conscience as an operator within the system concerned only with the efficiency of the segment in which he operates. He is aligned with science which, like the vestal virgins of yore, permits him to do anything requested of him without becoming sullied. Snow, quoted by Baran, observes that those who wish to save themselves say: we produced the tools, and there we stop. It is up to you others, the rest of the world, the politicians, to say how those tools should be used. They can be employed for purposes which most of us consider are wrong. If so, we regret it; but as scientists it does not concern us.

I cannot help calling to mind the image of the German "maximizer" who in 1942, bent over his work table, sought to minimize the number of wagons/day used in a certain operation to transport Jews to Treblinka. That night he overcame any hesitation he might have felt —I am a technician and as such 'neutral and objective'— and slept peacefully because the vestal would watch over his sleep; the maximization of partial rationality and the maximization of global irrationality combined.

This ethics is combined with analytical lobotomy. By demarcating an area for reflection, carefully and judiciously isolated from the other areas of human activity, the economist, and economic analysis, remains blind to history, to change, to the whole of which he is a part.

Baran again shows why this lobotomy is painless. "The intellectual worker in our societies, obliged to avoid being identified as a manual worker, tends to ascribe a real existence to his own position; to exaggerate the difficulty of his work and the complexity of the skill required to perform it; to exaggerate the importance of his formal education and academic degrees. He is not concerned with the relationship existing between the segment of human performance, within which he operates and the other segments, nor between them and history as a whole. His natural motto is to 'mind his own business'. Accustomed to think in terms of ability, experience and skill, the intellectual worker considers that the study of the relationship between the problems themselves and the whole is one of many specialties. For him, this is the domain or field of action of philosophers, members of the clergy or politicians, just as questions of culture or values are the business of poets, artists and scholars."27

This proposed political-technical division of labour is directly based on the idea of neutrality of means; on the idea that the political option assumes responsibility for the arbitration of conflict in economic policy processes: the choice of goals. It admits that the choice of a goal involves an arbitration absolutely or relatively favourable to some, and unfavourable to others. Once the goal is established, however, it assumes the existence of consensus regarding the desirability of maximum efficiency in its attainment. As the technician is a specialist in means, he will therefore act at a non-conflictive level. This assumption is extremely hazardous.

Without going any further into the matter, we should keep in mind that the choice of a goal is merely a declaration of intent, since the choice and actual implementation of the means is what provides a foundation for the goal (although not necessarily). Declarations of intent are normally vague or formulated in such broad terms as to obtain maximum consensus.28 Actually, the specific

27Ibid., pp. 652-653.
28"Most (economic policy) programmes amount to
'win or lose' decision is settled when the means are implemented. Objectively speaking, although the formal choice is made by the politicians, the technical specialist vouchsafing specific means is very close—contrary to what he assumes (and, moreover, frequently discovers as soon as he participates in economic policy-making)—to the more conflictive level of economic policy. The neutrality of means exists only in economic policy textbooks.

For the State's action at the level of economic policy, the naive transposition of the Robbinsian ends-means binomial is a source of great confusion. From the micro-economic standpoint the neo-classical agent has an objective (end) and resources (means). For example, the consumer supposedly aims at maximizing satisfaction (end) and possesses means (income and previously accumulated assets). When the Robbinsian formula is naively transposed to State action, the ends-means binomial contributes to considerable semantic confusion. The State's goals are not microeconomic; they relate to the functioning of the economic system as a whole, and to the desirability of obtaining results from the interaction of complex individual performances. A component of that overall performance is the direct executive responsibility of the State, another must be the result of the performance of other social entities induced and/or compelled by measures enforced by the State to contribute by their performance to the desired results. This means that for economic policy purposes the State's performance is a means, just as the performances of other social entities are also means.

Accepting without argument, for the moment, the idea that the State is the subject-entity of economic policy, and the other social actors its object-entities, it is easy to locate the source of the confusion. The use of the ends-means binomial can only be used in the case of an isolated entity. The State, seen as an isolated entity, could have a Robbinsian goal — for example, to minimize the fiscal expenditure (means) for a specific level of public services provided (end). When we talk about maximizing the material welfare of society, however, we are not talking about an end in the Robbinsian sense. We are talking rather about a vague politico-economic objective which is broken down into a network of sub-objectives in the attainment of which the performance of the State and of all the other entities of the economic and social system converge.

The State's direct performance, and its inductive, directive and coercive action on other social entities, contribute to the attainment of the vague global objective throughout the whole network of sub-objectives. The means available for this are its economic policy instruments. And these instruments are not the means of the Robbinsian formula. Simple transposition does not demonstrate that (less illegitimately and in the best of hypotheses) the term "means" is applicable only to the behaviour of the State and other social entities, while the term "end" is applied to a desired "performance" for the system as a whole.

Economic policy instruments are not Robbinsian means. For Robbins, as a good neo-classicist, the means available to the micro-agents (consumers, enterprises, owners of factors of production, etc.) are the "legitimate property" of those who own them and obtained them through the free play of market forces, past and present. The
instruments at the State’s disposal are means with which the institution has been endowed. The State’s possession of them does not stem from the play of market forces: it is the product of a complex and conflictive social process through which the State, institution of institutions, has been ‘fitted out’ in the course of history. It is the result of a specific scheme of social organization. The composition of the set of economic policy instruments, the form in which they operate, the limits of their application, are a matter of controversy and are inherently the essentially impermanent result of political and social processes.

In sum, when transposed to economic policy, the use of the ends-means binomial, which for Robbins had a very precise meaning, becomes very vague and causes a confusion whose bibliographical consequences are tremendous. Pages and pages and yet more pages reflect the efforts of the naive Robbinsians to find a way out of this terminological trap. Often they run up against the hoary problem of causality, the chicken or the egg: means as ends, ends as means. We believe that the use of the term objective-instrument would obviate the need to peruse all those pages of enormous yet sterile efforts. The economic policy objectives would be all the achievements which it is sought to obtain for the economic system as a whole susceptible of being broken down into a network of sub-objectives. Economic policy instruments would be the expedients which the State has at its disposal to carry out direct action or induce, direct or coerce the other social entities to act in accordance with its selected sub-objectives. There is, however, a tendency to retain the ends-means binomial and a refusal (in economic policy textbooks) to use the objective-instrument binomial. Why this preference for confused terminology? (Inertia of the vernacular, perhaps!) For some, tradition is doubtless comfortable, but we believe that there is an underlying reason. The ends-means binomial makes it easier to sell subliminally the idea of the inherent legitimacy, as demonstrated by economics, of certain ends and certain means; above all, of certain means (instruments). The liberal point of view supports the scientific legitimacy of a specific set of instruments, and primarily of instruments of action by inducement rather than direct, directive and coercive instruments. In addition, it tends to attribute greater legitimacy to means whose application is not personalized or capable of being personalized. Hence monetary and fiscal instruments always appear to be the most legitimate. The concept of instrument has the defect of showing too clearly the conventional and operational nature of the expedients in the State’s power. It is useful for the operational dimension of ‘official economic science’, but somewhat disturbing for its apologists.

The legitimacy ideologically granted by ‘official economics’ to monetary and fiscal instruments (the only ones to deserve specialized courses in monetary and fiscal policy in economics curricula), and the academic prejudices and distrust regarding the instruments of action by direction or coercion, not to mention the direct action of the public sector (I have never heard of a course on policy of State enterprises) are based on the age-old tenet of liberal ethics which distinguishes between liberty (authorized) and licence or arbitrariness (condemned). Locke, in Two Treatises of Government written in the second half of the 17th century, argued that liberty means only not being subjected to any power other than that established by social consensus; it means being subject to laws which are not imposed from above; it means not being subject to the arbitrary, changing, unknown, uncertain and discretionary will of others or of the State. If handled in accordance with the rules of the game as fixed by consensus, the instruments of action by inducement which neither are nor can be personalized allow the microeconomic agents to act freely in the sense which Locke attributes to the term whereas the other instruments (direct, directive or coercive, or of both types) subject people to the
arbitrariness of the State, thus limiting their liberty and restricting 'free enterprise'.

What is striking about authors such as those quoted above is their unbounded trust in the models constructed by economic analysis as concerns their representativity of the functioning of part or 'the totality' of the economic system. Through the identification as an end (to be chosen politically) of a dependent variable of the model, the economist can indicate the most efficient means (independent variables of the model, under State control). "An economic model consists simply of a group or set of economic relationships, each one of which involves at least one variable which also appears in at least one other relation which is part of the model." The economic relations of the model may be: (a) behavioural, reflecting the proposed theoretical articulation of the economic variables; (b) institutional restrictions, reflecting the institutional framework; (c) technical, reflecting the technological framework; and (d) identities or tautological definitions.

In order to admit solution, the theoretical model must satisfy a number of mathematical requirements, among which the most general is that the number of relations (equations) should at least be equal to the number of variables (unknowns). Transferred to economic policy under the naive approach, this model becomes or can become the decision model. According to its 'inventor', Nobel prize winner Ragnar Frisch, the decision model arises in the following manner: the work of economic policy consists in considering that the data, which include economic policy means, are known, and that economic phenomena and the variables which include the ends of economic policy are the unknowns. The problem of economic policy is to consider the ends as given and the means as unknown or, at least, partially as unknowns. A decision model does not have to meet the condition to admitting a solution as mentioned above. If a number of equations of model m is less than that of the variables n, once n-m variables, known as the model's degrees of liberty, may be controlled at the State's will, the model admits solution. (What pleasure the economist feels when handling a model with n-m degrees of liberty!)

A digression: one type of analysis found in the works of economists conjures up in my mind the image of the Byzantine scholars arguing heatedly over the sex of angels. The example may be given of the nature of the logical content of explanatory (in economic analysis) and normative (in economic policy) decision models. The heart of the matter: is the logic the same, or perhaps different?

Here are two opposing scholars in the heat of the argument. Koopmans asserts their identity: "The distinction between descriptive and normative applications is extraneous to the model. Whether a statement derived from the postulates of the model is used descriptively or normatively depends not on the logical content of the statement but on the extent to which the choices with which the model deals are regarded as subject to the influence of the user of the analysis". "The same chains of reasoning may serve in explanatory as well as in normative economic theory."

On the other side of this thrilling argument we find Hans Jurgen Seraphim: "...the job of economic theory is to discover the conditions of socio-economic phenomena, i.e., to devote itself to the investigation of causes... This causal approach—we call it economic theory—is characterized by the fact that something specific, irrespective of how its content is conceived, becomes the

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33 Ibid., p. 144.
object of the enquiry. This datum is our epistemological object... This approach, which starts from the given and inquires into ... its modalities, in our interpretation, and in the broader sense of the word, is a causal theoretical approach. Now, economic policy adopts a teleological approach as proposed by Englis: 'the teleological approach, which methodologically we describe as economico-political in the formal sense, can never be an inversion of causal theory, but is rather a rational way of seeing in its own right...'.34 Thus science situates itself in the way of thinking of the acting subject who ponders all possible interventions in the external causal world, from which he chooses one. Science wishes to understand this choice; it wishes to understand why the subject desires one intervention and not others, and why he considers it most useful. This gives rise to an order of proposed content in thought; ends are the ordering elements, means the ordered. The idea of the proposed end becomes the cause of the act. From this it may be deduced that the teleological study of an experimental subject calls for a logical construction of the knowledge specific to it, i.e., distinct from the specificity of the causal study. The difference in the form of causal and teleological knowledge consists in the fact that the former considers that the content of knowledge simply exists whereas the latter considers that the content is proposed. Economic policy consists in a set of postulates ordered according to the ends-means principle and uniformly dominated by a common original finality".35

This gripping discussion has us on the edge of our seats. However, returning to the question of the trust which the naive thinkers on economic policy of the Robbinsian tradition place in models, we have nothing to say about the representativity of models, except to point out that some authors in the Robbinsian school also take the ideological step mentioned earlier.

When they become aware of the "Torres problem", they may defend the transposition of the Robbinsian formula on condition that they introduce into their economic policy approach the neo-classical position on the restriction of State action (basically limited to maintaining the rules of the game). It is true that in this case the innovation barely amounts to a neologism. We are by no means against innovation in language, recognizing as we do the need to revitalize the old images. In the present study, authors following this line are considered neoliberals. It is important to point out that many other authors inadvertently change the sense of the Robbinsian formula by removing the limitations. These end up either in the confusion demonstrated by Taylor or, attempting to expand the Robbinsian formula, in Torres' trouble-ridden 'co-ordination'.

Otherwise, they drop the formula of indifference to ends and, through scientific procedures, proceed to investigate those which should guide State action on the economy as a whole. Finally, it should be noted that the neoliberal formula is ambiguous, since it combines authors of the Robbinsian school and welfare economists. Furthermore, the prefix itself is questionable since in many cases the only 'neo' aspect of it is the formalization they adopt. We shall draw attention to a number of points at a later stage, as the variants arise.

Meanwhile, before continuing to push our way through the tropical jungle, a comment should be made on the naivety of the chemically pure neoliberal position and its moving trust in economic policy models...

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35H. J. Seraphim, *Política económica general*, op. cit., pp. 2 to 4. Professor Seraphim lectures in the University of Münster and his book dates from 1955; the Spanish translation was adopted as the basic textbook in political economy by Buenos Aires University in the 1960s.

36Ibid.
obtained by inverting neo-classical syllogisms. (What is the level of abstraction?) At the concrete historical level, can fluctuating models be used in the rarefied atmosphere of a few postulates obtained from 'common sense'? Apparently, the problem of atmospheric level does no frighten our naive neoliberals. It would be exaggerated to suppose that, without a manometer or with their heads turned by the great height at which they find themselves, their cerebral functions must have been weakened and they did not mistrust concrete historical facts. Since I do not wish to accept this hypothesis, I find it easier to believe that they took to the mountains when fleeing from what Professor Steiner of Illinois University discovered when occupying a high position in the United States administration.37

Here is what Professor Steiner had to say when revealing his discovery: "Without the generous use of abstractions and broad generalization, it is inevitable that one would get lost in the bewildering jungle of concrete facts about public economic policies. But every effort is made in this study to support abstractions with relevant concrete facts to prevent their becoming meaningless. Abstractions are useful tools by which complex details can become related. The mere fact that abstractions are supposed to accomplish this useful classification means that they must be based up on concrete reality. But, when one comes to reality in the realm of public economic policy he finds it distressingly complex. As Orton pointed out, the closer we come to reality, the more we must recognize that we are dealing with innumerable streams of tendency, running parallel, blending, conflicting, clashing violently; coming from origins we cannot always trace; and never lying wholly on the surface."38

The situation encountered by Professor Steiner is truly horrifying — and we would add that the interrelation he makes between abstraction and reality is likewise 'horrifying'.

In my opinion, and this is my explanation, our neoliberals do well to cling to their naivety and stick to the mountain tops.

It is also worth recalling here the interesting position taken by Seraphin: "We are interested in economic policy purely as a science. We do not move in the world of the political militant. Our work lies not in the field of personal acts and decisions of a political nature but in the furthering of knowledge, where opinions are subjective and ideologies and idiosyncrasies must be eliminated as far as possible; this is essential, or at least they must be situated on a pre-scientific plane. Our procedure must be such that the results we obtain are valid in the sense that any person who accepts the prior conditions from which we started must arrive at the same results. But those conditions must not be chosen arbitrarily. It must be possible to corroborate the fact that they were rationally proposed".39 (Aristotle and Kant cry "hear, hear!" in the wings.)

Let us see where Seraphin is heading: "Only a theory of models which utterly rejects practical application and which, being hypothetical in nature, neither openly nor clandestinely, neither deliberately nor involuntarily, neither directly nor indirectly serves as a basis for judgements about the real economy, can stand aloof from the conflict of value judgements";40 and he goes on: "If the scientist abstained from personal value judgements, i.e., if he incorporated in his theoretical models the relevant decisions taken by politicians as initial data with equal status and value, this would mean that de facto he would be basing himself on the momentarily valid dominant ideology. In so

37Professor Steiner was Director of the Policy Development Staff of the Defense Production Administration.


40Ibid., p. 49.
doing he would lower himself by becoming the propagandist for currents of political will; and sooner or later he would justly be despised, and thus achieve precisely the opposite of what he wanted to obtain by rejecting an independent position with regard to value judgements. The economic policy expert has only one option: to shut himself up in an ivory tower surrounded by a sanitary cordon. The theory of economic policy produced in such conditions would be grounded in reason and above suspicion urbi et orbi, in view of the austerity of our scientific stylite, who would thus vanquish the barbarism of ideology and politics.

And now a final comment on our 'neoliberals'. What is the State in their ideas on economic policy? The answer is an entity as abstract as the other subjects (consumers, enterprises, etc.); it has ends, it is rational, and it seeks economy of means. Our neoliberals do not bother themselves very much with the specificity of this subject, and in this respect they differ greatly from the economists of the English Classical school. Neoclassicism derived its aseptic concept from the ideal State cherished by the English Classical economists. Robbins states in a work from his mature period: “By the theory of economic policy I mean the general body of principles of governmental action or inaction —the agenda or non-agenda of the State as Bentham called them— in regard to economic activity”. This State had at least some of the substance proposed by English utilitarianism. It was not the abstract ghost of the politico-economic transpositions derived from the young Robbins by an ill-advised neo-classicism. Bresciani-Turroni says of this ghost: “Society and State are only abstractions — in reality, there are only individuals with their needs, efforts, passions, ideals”.

Finally, it should be pointed out that the neoliberals, with their love of formalism and symmetrical structures, must be broken-hearted that they did not discover the momentous classification proposed by Di Fenizio: micropolicy, which would investigate normative models for consumers and producers, and macropolicy which would consider normative models for the State.

In the tropical jungle of economic policy textbooks and manuals through which we are making our painful progress, the trees are not all of the same variety. Each grows into its own shape with its distinctive branch formation and corrugations. Trees grow towards the light, competing with many other kinds of vegetable life. Without the sun's light they atrophy; but not before trying to send up shoots through any promising opening. We should therefore not be surprised that each author is somewhat different from his fellows. Each stands apart and yet blends with the rest. Every work differs from the others by some singularity of growth or shape. It is not necessary to study every tree and bush in the forest: that would be impossible and tremendously monotonous; but it is worth giving some examples. For this purpose let us return to the work of Professor Torres, the author of two shrubs, as it were, in this great jungle.

After repeating Robbins' argument, Torres offers the following variation: “Although it may appear paradoxical, economists working in the public sector have a better chance of using their science with precision than those working in private enterprise”. For Torres, the possibility of analysing and applying economic policy is

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41 Ibid., p. 50.
43 C. Bresciani-Turroni, Einführung in Die Wirts-
44 F. di Fenizio, El método de la economía política y de la política económica. Barcelona, Bosch Casa Editorial, 1981. Professor Di Fenizio holds the chair of political economy in the L. Bocconi Commercial University, Milan.
45 M. de Torres, Teoría y práctica en la política económica, op. cit., and “Introduction” in R. Walker, De la teoría económica a la política económica, op. cit.
ECONOMIC POLICY: SCIENCE OR IDEOLOGY?

Carlos Lessa

It is easier at the global than at the partial level for the following reasons:

(a) Ends are exclusively political and have no specifically economic content. Their choice is governed by considerations of a social, technical, etc., nature. The economic end is subordinate to general policy. However, the economist sees more clearly than the layman the incompatibilities between ends and his aid may be sought to "homogenize the ends of economic policy with those of other policy branches. Without his assistance a rational choice of goods is impossible".46

(b) The economist is essential to indicate the appropriate means. "Here everything is technical economics, except for the small margin of political decision which consists in the choice between alternative measures ...and even then, the indication of the means and the description of their probable effects is something only the economist can know".47

(c) To the question of what purpose does the economist serve as an assistant to the government in the execution of economic policy, Torres replies "...it is quite clear: the principal function of the economist is to recall the elementary, simple truths, the truths which lie forgotten and slumbering in the utmost recondite corners of the mind. To recall the truth and ensure that it prevails and shines forth with the grace and beauty of a proudly flying flag".48

Here Professor Torres finds the economist essential for the rational harmonization (co-ordination) of ends, and almost omnipotent with respect to means and as guardian of the truth. And although we disagree somewhat with Professor Torres' aesthetic view, the vocation he describes is certainly a fine one!

(This standpoint is naive, and may be compared to the more exuberant kind of shrub — the economist's vocation flourishes under the sun of Spain: to ensure the national compatibility —co-ordination— of ends.)

However, Torres' self-satisfaction did not stem purely from a literary figure in the rich tradition of Southern climes. In other latitudes, where the cultural ethos is more austere, another author waxes enthusiastic over the function and concrete results of the economist's action in this sphere of economic policy. Billy states literally that "The striking results achieved by the Dutch economy since the war are partly due to the work of Tinbergen".49

Here is another example of eulogy: Professor Heller of the University of Minnesota (and head of the team of economic advisers in the Kennedy and Johnson Administrations) stated that: "Economics has come of age in the 1960s. Two presidents have recognized and viewed modern economics as a source of national strength and presidential power. Their willingness to use, for the first time, the complete range of instruments of modern economics stems from the uninterrupted growth of the United States since the beginning of 1961; a growth which, in its first five years, created more than 7 million new jobs, doubled profits, increased the real national product by one-third and filled the gap of 50,000 million dollars between real output and potential output of the United States economy in 1961".50 "Part of the economist's political force lies, then, in a broadening of the basis of economic theory, statistics and research. But his influence on those who make decisions —whether in the

46M. de Torres, "Introduction", in R. Walker, op. cit., pp. XIX and XX.
47Ibid., p. XXI.
48Ibid., p. XXIII.
White House or the Pentagon—also stems from his particular analytical approach. Problems of choice are his daily bread. In any case, his viewpoints should define problems and find solutions in terms which clearly indicate to the person taking the decisions how to attain an objective at a minimum cost..."51 (Another Robbinsian!)

"The elevation of the role of the political economist has also been due to growing professional consensus. It is true that the strident voices of minority groups, the tough discussions of social objectives and the differences in the choice of instruments may obscure his work from time to time. The chief functions of the economic adviser, as I have seen and known them, are to analyse, interpret and foresee, give political advice, educate, adapt and decipher. Luckily for him politics and economics are more often in harmony than in conflict. For him, happiness lies in the fact that a political necessity may be complemented by means of an economic good."52

There are economists who are proud of their contribution to economic policy. Without taking this analysis any further, let us hear what Meynaud has to say: "Like all other specialists, the economist contributes directly or indirectly to the formation of ideologies...In addition, it is a commonplace that the authorities of all classes tend to turn to specialists who profess an ideology analogous to their own and, therefore, favourable to their planned projects. Thus in many cases it is in fact difficult to separate an opinion on instruments from an appraisal of objectives".53

In order to avoid attributing this observation to a political scientist, let us hear what a wholly impartial economist, Professor Smithies of Harvard University has to say: "In selecting an adviser, the President should make sure that his adviser's views on policy will correspond generally with his own. But he is unlikely to receive much usable advice if the adviser is unwilling to commit himself on policy issues".54

The enthusiasm of Torres and Heller is quite genuine; they apparently confuse the success of their careers as economists with the economist's contribution to economic policy — an insignificant and almost imperceptible error of judgement.

III

And Back to Formalism - a Vicious Circle

"We cannot be expected to give a full history or an elaborate theory of the glass bead game; even writers more worthy or able than ourselves would be unable to do so. Such a task is reserved for some future time, if the sources or spiritual premises are not lost before then. Nor does our essay purport to be a manual for the game; such a manual could never be written. The rules of the game are only learnt by the normal, prescribed method which requires several years of study, and none of the initiates could ever have any interest in making the rules easier to understand."

(Herman Hesse)*

*From The Glass Bead Game (Magister Ludi).

Professor Di Fenizio's work El método de la economía política y de la política económica is an example of the argument in vacuo which has gone on for generations, stretching over more than a century; and everything points to the fact that it will continue to excite a certain kind of economist. We have chosen this author from a number of similar ones, firstly, because his work is recent (the third revised edition

51 Ibid., p. 18.
52 Ibid., various places, pp. 20, 26 and 27.
53 J. Meynaud, L'élaboration de la politique économique, op. cit., p. 128.
appeared in 1960) and therefore covers a series of ramifications of the discussion on this question, and secondly because it is a didactic text about which the author has two grounds for being pleased with himself; firstly, because of the clarity with which his arguments are presented, and secondly because of the moving sincerity with which he sets out straightforwardly and without hesitation to analyse questions on which prudence has counselled discretion to other authors of the same stamp.

In his book Di Fenizio summarizes the results of his reflections in a chart which we take the liberty of reproducing here: A ‘typical procedure in ‘economics’.

Here is what the author has to say about his diagram: “A wideranging analysis of the various stages of scientific method in physics and biology has enabled us to establish the different stages of the method both of political economy (a positive science) and of economic policy (a normative science). Since we know the relations between the two branches (positive and normative) of economics, it will be desirable to have a single overall method of investigation which will typically refer to these two branches of learnings. Let us suppose that some superficial economic observations of reality produce in the researcher a state of insatisfaction at the heart of which lie his own value judgements; then he will have a problem to study, and using some values as a principle of choice, he will be engaged in positive economics. Thus, he will develop models of political economy and formulate economic laws; he may pursue his research without abandoning the field of economic science; he will adopt some values as ends to be attained; he will use the established models and laws for the purpose of determining the proper means to attain those ends; and finally he will suggest the rules which he considers suited to the proposed ends. In this way his work will be completed and it will be found that the two branches of economic science —positive and normative— constitute a highly compact whole.”

“Political economy often chooses its values at the indication of economic policy and establishes suitable uniformities to show what exists in a de facto situation; on the other hand, economic policy uses the uniformities of political economy to attain other values or ends and consequently aspires to change what exists, proposing norms about what should be.”

This is a marvellous circuit handled by the magus-economist: laws and models, from what is to what should be, from ends to laws, from laws to ends, just as the person in charge of the process of scientific creation instructs his student, society. In the first place, it should be noted that in the above quotations it is easy to see the influence

55F. Di Fenizia, El método de la economía política y de la política económica, pp. 363 and 364.
56Ibid., p. 354.
of Comtian positivism whose historical origin—early nineteenth century capitalism—was the same as that of neo-classicism.

The six volumes of the *Cours de philosophie positive* were published between 1830 and 1842. The first edition of Nassau Senior's *An Outline of the Science of Political Economy* appeared in 1836 and the second in 1850. The voluminous work of Comte and Littré coincides with that of the Vienna School. Stuart Mill, a militant positivist, argued that psychic facts were elementary states to whose union a substantial nature is attributed, and that there is no need to investigate the grounds of that substance because the observer should stick exclusively to relations between primary mental states and the formulation of the relevant laws. The contribution to the construction of neo-classicism is immediately apparent. In addition, the academic success of both movements is identical from the standpoint of their duration and susceptibility to partial changes, and has continued to the present day. Proof of the longevity and adaptability of 'changing everything without changing anything' is the enormous audience today for works such as those of Di Fenizio.

The analysis of the vestiges of Comtian positivism to be found in Di Fenizio's work and the complexity of his thought help to explain a very frequent and recurrent approach to the concept of economic policy. Above all, there is a permanent and almost ritualistic effort to establish economics, as knowledge, in the Comtian sense, as a positive science. The economic textbooks repeat this *ad nauseam*, taking up an appreciable amount of the reader's time in proving that economics is indeed a science.\(^{57}\) The Comtian curse of the 'trial by ordeal' of knowledge according to the law of the three stages of knowledge (theological, metaphysical and positive) calls for this demonstration from the 'official' economist. In addition, as a better proof of the coming-of-age of his science, he repeats *ad nauseam* the same old song about equilibria. Using a circular proof, the neo-classical theory is definitive, and since it is the proof that economics is in the positive stage (which in positivism is definitive) it therefore serves *ad infinitum* as a permanent demonstration of its 'positive scientific nature'.

Di Fenizio states that: "Economics sets out to say something about reality as it is: accessible to perception, open to our awareness".\(^{58}\) Political economy, then, is a science which belongs to the empirical rather than to the formal group (logics and mathematics). Again, Di Fenizio explains his ambition: "political economy attempts to say something about the existing world and more concretely to explain and predict events, in order to master them (the ultimate goal of the empirical sciences)".\(^{59}\) The thirst for legitimation as a science also effects economic policy. Whether immediately accessible or the object of scholarly reflection, a theory of economic policy exists or will exist. In what does it differ from political economy? Answer: in that it is normative. Let us listen once again to Di Fenizio: "Since economic policy does not aim to verify what exists but rather to encourage the

\(^{57}\)This can be done in many ways. For example, there is a characteristic assertion in the introductory textbook of J. R. Hicks and A. G. Hart, *Structure of the Economy: introduction to the study of national income,* 'Economics—the subject we are going to study in this book and in others which it is hoped will one day follow—is a science, one of the branches of that great systematic study of the world in which we live

and in which we write Science with a capital S'. This is the first sentence in a textbook which a aspires to being the first. After stating that economics is the science which deals with commercial matters (exchange and distribution) (page 12) the authors show signs of professional pride (page 13) when stating that economics attempts to study these activities scientifically; in fact, in the application of scientific methods to the study of human behaviour it has achieved greater progress than the other social sciences. They draw attention to the similarity with the other sciences: the method of investigation in modern economics is the same as in all sciences.

\(^{58}\)F. Di Fenizio, *El método de la economía política y de la política económica,* p. 17.

\(^{59}\)Ibid., p. 18.
attainment of something which is considered ‘good’, ‘just’, ‘viable’ or some such thing, it is not a positive but rather a normative science. That is to say, it does not restrict itself to accepting values as chosen elements in its field of research, as criteria of choice, but accepts them as the focal point of the norms and precepts which it wishes to have adopted or which, at least, it proposes.  

Something must be said about the meaning of the ultimate goal of empirical science: mastery. "This dominion of science over reality is a complex matter. It may even be aesthetic or intellectual, and does not only mean, as many people believe, the possibility of modifying events." This mastery is different from the programme of normative science which has another goal: "This is called economic policy, which either attempts, by using the laws and models established by political economics, to lay down rules about how the unit of consumption or the unit of production, for example, should behave if it is desired to attain certain ends (micropolicy) or else is aimed at establishing precepts (norms, advice concerning what should be) about how power groups should behave when, within the framework of the economic system in question, other specific ends are desired (macropolicy or economic policy, as it is currently called)."  

'Official economics' openly recognizes the aspiration to construct the theory of economic policy. Here is what Professor Smithies has to say: "Economics has always been concerned with policy. Most economists have been motivated by the desire to promote what they considered to be social improvement — Cournot, Walras and Schumpeter are among the few eminent exceptions of the past, who come readily to mind. Adam Smith, Ricardo, Mill, Marshall and Keynes fall just as readily into the category of economists with strong policy motivations. Whatever the motivation of the economist, most economic analysis has strong policy implications. The general equilibrium system of Walras, for instance, can be regarded equally as an explanatory instrument and as a prescription of an economic norm for society. The theory provides solid support for the view that an individualistic society can achieve harmonious and desirable economic results." This paragraph from Smithies makes convincing reading because even the non-political economists contribute to the work of the political economists.

The economist as sage — positive scientist— lays down rules and precepts (naturally based on value judgements) for the micro-units and the groups which possess power. What does he base himself upon? Answer: science. "Broadly speaking, all research in economic policy takes the form first of an analysis of the relations existing between the different economic ends proposed by the policy; then, and this is the most obvious aspect of the research, in indicating the means suited to attaining those ends." In order to do so, it makes use of the laws and models prepared by political economics as a positive science. In proposing means to attain the ends desired by certain power groups, it makes use precisely of the uniformities offered by the economists. Secondly, it is worth emphasizing this identification of the economist with the sage. The quotations from Di Fenizio clearly show the aim of the economist handling the theory of economic policy: namely, to lay down rules and propose precepts based on serious positive scientific knowledge; and the position he aims to occupy in the social hierarchy: to advise, with the dignity and serenity bestowed by his white hairs — to
advise consumers, the owners of the units of production, and the groups which possess power. This role of the sage is part of the scientific ethic of Comtian positivism. In its early stages positivism was a doctrine of peaceful social reform: reflecting the 'new broom' approach which the new dominant capitalist groups in their quiet moments (early nineteenth century) wished to adopt with regard to the vestiges of the former régime, the positivist ideology predicated as a moral doctrine a norm for society and rules by which men should live their lives. In politics it stuck to the age-old doctrine of natural law. As a functional doctrine of knowledge in relation to society, it was based on a doctrine of knowledge, from which stemmed the norm for society and the rules by which men should live. The positive stage is not merely a form and stage of the organization of the sciences, but also what produces a positive stage of society. The development of knowledge will culminate in a point where society will possess a positive sociology ruled by the values of pacifism, order and hierarchy. "Love as a principle, order as a basis and progress as a goal"; and in this hierarchy, spiritual power will belong to the sages and temporal power to the industrialists. In this positive stage of economic science, the economist is raised to the position of sage; the neo-classicist receives his due share of spiritual power. Hence the importance of equilibria for the economist — as his credential for power.

It is likewise easy to understand the benevolent and doctoral tone of a theory of economic policy. The exact semantic meaning of the expression — so frequently used — 'ends of economic policy' becomes clear. End is not synonymous with objective; and end is what is advised by the venerable and benevolent greybeard. An end is what should be, the norm. An economic objective is in a different category. Let us turn once again to Di Fenizio for enlightenment: "Economic action is not a science as a generalizing branch of knowledge. It is an activity carried out by the government of a specific community or by large economic groups which possess power in order to attain specific practical purposes, using for that purpose both the laws of political economics and the precepts of economic policy."66

In peaceful times the sage's position is peaceful. From the confines of his chair of 'official economics' he advises, with his spiritual power, those who hold temporal power. At times of unrest the picture is quite different: 'official economics' loses its bearings, and may opt for a pragmatic, operational approach, climb down from its official chair, roll up its sleeves, shout its praises and invent technical jargon; in so doing, however, it undergoes a 'crisis of academic dignity' — how regrettable that the greybeard should turn to economic action. The other possibility is to turn to the absurd, where the extreme position is that of our old acquaintance Professor Seraphim. (Besides, the tradition of the absurd has its precedent in the evolution of Comtian positivism itself: the cult of Clothilde de Vaux, the religion of humanity past, present and future, as the Supreme Being, etc.; the idealistic critique of the religion of initial positivism transformed into a secularized religion by positivism at an advanced stage. We have enough evidence that economics can also become a cult object.) In the twentieth century we see 'official economics' divided into these two streams, with obvious consequences as concerns their conception of economic policy.67 However, we shall not deal with this question for the time being.

Thirdly, it should be remembered that

66Ibid., p. 363.
67Commenting on Professor Samuelson's presidential address to the American Economic Association in 1961, Seligman said "(Samuelson) argued that there was a dichotomy between the inner logic of the science and its implications for the man in the street, a dichotomy which he seemed to welcome. In fact, the good political economist was apt to be an indifferent analyst and the good analyst really did not have to bother about the state of the world". B. B. Seligman, op. cit., p. 433.
positivism is a theory of knowledge which refuses to recognize any reality which is not factual, and refuses to investigate anything other than the relationship between facts. It accepts facts as the empirical meaning of the affirmation of existence. Facts as objects of positive knowledge exist only through the reports of the senses. The scientist's task is therefore to grasp facts at the level at which they exist, as they appear—at the level of appearance—and articulate their relations.

Thus positivism aims to stick to what is known from the senses and never go beyond what is so given. The rejection of all a priori knowledge, of direct intuition of the intelligible and of deductive method, and the reduction of philosophy to the results of science, etc., may be derived from the postulates of positivism in its quiet moments. In troubled times, in the form of logical positivism, some of these distinctive features are forgotten and, using different kinds of sleight of hand, it will adopt some of the procedures which in its tranquil periods it condemned as pre-scientific. However, let us return to its initial stage. It is not for the scientist to answer the questions what, why or wherefore (for which he would have to resort to metaphysics or even theology), but rather to explain how interfactual relationships are articulated. Professor Popper states that: "We are not interested in questions such as what is energy? what is movement? or what is the atom? On the contrary, modern physics puts forward questions such as how can solar energy be used?, how does a planet move? ... and to the philosophers ... who unfortunately cannot give precise answers to questions which begin with a 'why?', without first having answered the questions formulated with a 'what?', the scientist will reply that he prefers the modest degree of exactness to which he can aspire with his methods to the presumptuous confusion they achieve with theirs." This position favours analysis and rejects criticism, since reality, on the plane of appearance, always appears fragmented.

Economics as a form of analysis which gives preference to certain phenomena, which seeks their relationships by formulating hypotheses and verifying them, and systematizing those hypotheses in the form of co-ordinated theories (or models); economics as the empirical analysis of apparent data: this is the level which it is hoped to reach in the more naive versions of neo-classicism. (There still remains that thorny problem of verifying the hypotheses!) Finally, one of the constants of positivism in its many and successive versions (and of neo-classicism in its later editions), and also its corollary, is the 'historiophobic' standpoint. History is only accepted as a mere chronicle because "by its nature it singles out what is individual, unique, particular". Historiophobia rejects out of hand any and every position which, to use its own terms, turns "sociology into theoretical history", classifying as 'historicist' positions.

68 It is rather typical that T. W. Hutchison, the first to introduce the verification criterion of logical positivism in economics, published his book entitled The Significance and Basic Postulates of Economic Theory in 1938, the year in which there was the greatest disenchantment with economics and the international setting. This discussion has continued to our days: Machlup, Friedman, Koopmans, Rotwein, Gordon, Schoeffler, Buttrick, etc., are some of those who have taken part in this argument about logical positivism in economics.


70 Our friend Robbins is a radical apriorist who argues that economic theory is a system of deductions on the basis of a series of assumptions which are not susceptible of empirical verification. The contrary position would be that of the ultraempiricist who claims that he starts from facts and not from assumptions. 'Official economics' has oscillated between these two extremes.

71 There is a great deal of literature on the difficulties and unsatisfactoriness of the deductive construction of neo-classicism for the verification of hypotheses and we recommend the interested reader to consult chapter II, sections 3 to 6, of A. Lowe's, On Economic Knowledge Towards a Science of Political Economics.

72 F. Di Fenizio, El método de la economía política y de la política económica, op. cit., p. 18.

those which adopt the doctrines known as the historical, national-economic and institutionalist schools. Marxism is also placed in this historicist group. For the positivist, the sociology of knowledge is unserious and Mannheim irreverent. Any approach which accepts history as movement is metaphysical or pre-scientific. Positive science necessarily generalizes: from the mass of facts it has to extract universal and non-temporal interfactual relationships.

The love of the universal, the atemporal and the general has a clear derivation in the position of the theory of economic policy as a normative science, of neo-classicism which, for want of a better title, I shall call abstract prescriptivism: saying what should be, without paying any attention to the problem of the viability of the recommendation —naturally enough, since that would raise the thorny question of specific historical concrete facts. There are whole textbooks of economic policy recipes, which, if I may be forgiven this want of respect, have always reminded me of cookery books.

Or rather I do see one difference. Brillat Savarin can legitimately recommend how an appetizing dish should be prepared. He is not interested in the question of its viability: if the person who purchases his book possesses a good kitchen and the means to acquire the recommended ingredients, and can pay the salary of a cordon bleu cook, the treatise will be very useful to him.

This is not the case of the millions of textbooks which recommend full employment, price stability, balance-of-payments equilibrium, etc., as economic policy objectives. Tome after tome which, on the basis of the theory of economic policy and after analysing economic growth as if it depended on the rate of capital formation and the productivity of capital, triumphantly conclude by recommending that the rate of domestic saving should be raised and the productivity of new investment increased. Texts which recommend with greater or lesser emphasis that investment in the human factor should be increased. Pompous advice put in the following terms: inflation is the disease; its remedy lies in stabilizing prices, for which purpose the growth of total demand must be restricted and costpush pressures weakened. Solemn reports containing economic policy prescriptions for faster development, which recommend land reform to increase the productivity of land, or labour, or both, or to stimulate domestic consumption, or both at once, etc. I must confess that I find it difficult to justify this kind of textbook.

To set the record straight it should be pointed out that some authors representing 'official economics' are more enlightened and agree with Morgenstern, as quoted by Di Fenizio: "at the top of the list of all the errors which the professional economist can possibly commit is that of identifying economic theory with any particular form of application... Economics is an empirical science which is still in an embryonic state, and much further removed from facts than it should be". On the other hand, economic policy "in the majority of cases is policy in the real sense". Others, like Walker, are more acute: "The distance which separates economic theory from economic policy is due in part to the tremendous complexity of the practical problems tackled by economic policy, this can most usefully be done with the context of a particular problem occurring in a particular environment".

74 Those interested in learning the better arguments against historicism are advised to read the work of Popper, ibid., as well as his The Logic of Scientific Discovery, London, 1959.

75 The better prescriptive textbooks give elaborate typologies of concrete historical situations. J. E. Meade's The Stationary Economy, London, George Allen & Unwin Ltd., 1955, is an excellent example of what can be obtained. An outline of the position may be found in H. C. Johnson, "The taxonomic approach to economic policy", Economic Journal, 1951, Vol. LXI: "...if economic theory is to be applied to problems of economic

76 Morgenstern, quoted by Di Fenizio, op. cit., p. 119.

77 Ibid., p. 131.
policy and the obstacles which stand in the way of the use of scientific method. Every branch of science has its own external limitations of this kind. But there are also the limitations which the economists, aware of the independent position of their science, have imposed on themselves through their definitions of the extension and method of economics. Over the last 100 years the tendency has been to make those limits increasingly narrow, with the intention of delimiting a field within which the postulates of economics would be as unquestionable as the proven theories of other recognized sciences.\textsuperscript{78}

\textsuperscript{78} R. Walker, \textit{op. cit.}, p. 5.
The Latin American regional market: the project and the reality

Germánico Salgado*

The purpose of the present article is to supply some background data for a redefinition of the objectives, methods and instruments of Latin American integration: a restatement of the case which the author considers an indispensable requisite for restoring vitality to the movement. In his opinion, Latin American ideas on integration have unfortunately clung too fast to theories whose validity for our societies is slight, and have attempted to keep in step with experiences in industrial countries which are remote from the realities of under-development. On the basis of the region's own experiences and of clearer conceptions of what integration can be expected to offer, it is possible to inquire into which styles or patterns are technically suitable and which of them may be viable for Latin America.

To this end, the article begins with a rapid review of the original CEPAL conceptions of Latin American integration, and goes on to analyse the evolution of ideas in the course of the negotiations that led to the establishment of the first integration groupings in Latin America. Next follows a brief outline of the obstacles which integration movements have really encountered on their path, both in Latin America and in the case of some experiments in the rest of the developing world; and in conclusion attention is drawn to some of the significant factors accounting for the problems by which integration has been beset, so as thence to deduce criteria that will be of help in forming opinions on the patterns and instruments of a viable integration programme. By way of final recapitulation, these concepts are contrasted with those that served as foundation-stones for the construction of the formulas on which Latin American integration has hitherto been based.

*Consultant to CEPAL.
efforts. And it is entirely symbolic of the intellectual freedom which was and is characteristic of CEPAL, that these pages should make their modest contribution to the celebration of its thirty years of existence in the form of an analysis that starts by questioning some of its early conceptions.

From the very outset, Latin American integration was one of the essential elements in CEPAL's theses on the development of the region. One example that has already been mentioned is afforded by the *Economic Survey of Latin America, 1949*. As soon as a favourable opportunity offered itself, CEPAL intensified its promotional action, in which it never flagged until in 1960 the Latin American Free-Trade Association and the Central American Common Market were established.

The opportunity arose as soon as the relative boom in Latin American exports which had accompanied the hostilities in Korea came to an end. As has happened since, the years of prosperity enjoyed by the region's foreign trade had engendered a less alert attitude to internal development problems, and had relegated the inducements to integration to a secondary plane. The decline in the growth rate of exports which materialized in the years 1953 to 1955 afforded a propitious opportunity for taking the initial political steps towards integration. The first session of the Trade Committee, held in November 1956, marked the beginning of a phase of elucidation and negotiation, which, as already stated, culminated in 1960, after a series of meetings of various technical and political organs, convened, or at all event promoted, by CEPAL.¹

²In this connexion suffice it to recall one or two sentences from a CEPAL document aimed at motivating governments: "Latin America ... will be unable to carry out its development plans, will be unable even to regain the rate of growth it achieved in the ten post-war years, unless it makes a sustained effort to establish within its own territory the capital goods industries of which it is in such urgent need today, and which it will require on a large scale during the next quarter of a century" ... "In order to produce these capital goods and develop all the intermediate goods industries required ... Latin America needs a common market." See CEPAL, *The Latin American Common Market*, United Nations publication, Sales N.° 59.II.G.4, Mexico, D.F., July 1959, p. 1.

¹Two sessions of the Trade Committee (1956 and 1959), two sessions of the Working Group on the Latin American Regional Market and three meetings for consultations on trade policy (1958 and 1959), apart from the meetings concerned with Central America, the sessions of the Central Banks Working Group, and the rounds of government negotiations which led to the signing of the Montevideo Treaty and of the General Treaty on Central American Economic Integration.
The present paper, although it does allude to these differences, is chiefly concerned with the positions emerging in connexion with the ALALC negotiations, since they are felt to have been of decisive importance in defining some of the parameters on the basis of which Latin American integration was subsequently to evolve. Any omissions fallen into here in respect of Central American integration tend to impoverish the content of the concepts, especially those of CEPAL, but help to focus attention on a process which was originally intended to have the characteristics of a general formula for the whole of Latin America, and which, in this sense, bears the brunt of the responsibility for what Latin American integration has been and has failed to become.

In the writer's opinion, the following were the most important of the CEPAL theses relating to the specific regional market formula.

1. The need for realism and originality in the conception of the integration formula

CEPAL repeatedly urged the desirability of advancing little by little, in accordance with the countries' differing situations, and stressed the advantages of flexibility in the instruments of integration. This attitude was evidenced in its opinions on the scope of the formulas to which it was advisable to resort. While maintaining the necessity of keeping the Latin American common market formula in sight as a final objective, CEPAL at the same time asserted that "It can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets; and would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose". It also commented: "Hence ... the desirability of adopting highly flexible procedures and establishing far-sighted escape clauses during this experimental phase".

It is important to recall that CEPAL gave its support to a formula for this first stage which was, in the last analysis, that of a preferential trade area, and declared itself in agreement with the targets recommended by the Working Group on the Latin American Regional Market which the secretariat convened to deal with those specific topics. The objectives in question were to secure within ten years an appreciable reduction in the average level of tariff duties —many of which were to be eliminated— and the abolition of all tariff restrictions by virtue of an appropriate credits and payments régime. More ambitious proposals, such as full liberalization of trade and the construction of a common external tariff, would have to wait at least until the end of this experimental phase.

The proposal that the average level of duties be reduced, put forward by the secretariat and taken up by the Working Group, had in CEPAL's view the advantage of flexibility; the levels could be different for different categories of products, and even within these categories, during the negotiations each country could make distinctions between products as suited it best. The procedure would also allow different levels of reductions to be established in accordance with the disparities between countries in respect of their stages of development.

2. The regional market ought to cover the whole of Latin America

One of the reasons why CEPAL recommended cautious progress was probably its insistence on the need for the formula to embrace the whole of Latin America. The preferential area should be set up with as many references will be made to this work henceforward, all the quotations taken from it will merely be followed by a number in brackets indicating the page on which the quotation appears.
many as possible of the countries of the region, and with a sufficient degree of openness to facilitate the incorporation of those that did not participate from the start. CEPAL was steadfastly opposed to any kind of restriction of access which would involve the risk that exclusive groupings might be formed. If this were to happen, it said, "the initial group of countries would tend to withdraw into its shell, and other non-members might attempt to form similar and equally exclusive groups. And instead of one huge Latin American common market there would be, after a time, a series of subregional clusters, with as little intercommunication as characterizes the Latin American economy at present". (16) The corollary of this insistence on breadth of scope is the advocacy of full application of the most-favoured-nation clause. In this line of thought, the ideal would be, according to some passages in CEPAL's studies, a Latin American clause with the smallest possible number of exceptions. What was envisaged was a Latin American preference to be negotiated without a liberalization programme determined in detail, which almost necessarily implied a product-by-product negotiation.

The exception to the unconditional application of the most-favoured-nation clause was Central America, at least for the time being, and the other reservations made were those relating to preferential treatment for the weaker countries and industrial complementarity agreements.

3. The formula had inevitably to include different treatments in accordance with the countries' situations

CEPAL steadfastly affirmed the necessity of preferential treatment for countries in the initial stages of development, but later it accepted the idea of an intermediate category of countries and even, with reservations, allowed that some distinction might be drawn in respect of those where the level of wages was high. It understood the risk of concentrating benefits in the more powerful or more wide-awake countries. To avoid this, two proposals were made: that the principle of reciprocity should be established, and that differential treatment should be granted in accordance with the stage of development the countries had reached.

Reference will be made later to the question of reciprocity. As regards differential treatment, CEPAL began by partly following the ideas in vogue and postulating as one of its instruments the application of different degrees of reduction or elimination of duties in the case of the less advanced countries, i.e., the possibility that these latter might maintain a higher level of protection. But it then went on to underline the inadequacy of this kind of passive preferential treatment. In practice, the common market would mean that the less developed countries would have to incur losses deriving from diversion of trade. To compensate them, favourable treatment for their products would not be enough if it was also extended to other countries with better possibilities of reaping its benefits. The solution, according to CEPAL, lay in special concessions: "The reduction or elimination of duties accorded by a more advanced country to one in the initial stages of development would not be extended to all the other Latin American countries but only to those that were less developed. These latter would thus be able to benefit by the expanding market of the more advanced countries without interference from third parties". (19) These special concessions —i.e., non-reciprocal and exclusive to countries in the situation referred to—, which

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4^"The common market should offer each and all of the Latin American countries equal opportunities of expediting their economic growth. But the disparities in their relative situations consequent upon the varying stages of development referred to necessitate differential treatment if such equality of opportunity in respect of the common market is to be ensured so far as possible." (5)
would be the pivot of the preferential system, undoubtedly constituted an innovation in the economic integration theories then prevailing.

4. The price mechanism as the basis of the operation of the common market

This is the aspect of the question in which it is hardest to discern which were CEPAL's original positions, and how far they were modified by the progress of negotiations which from the very start showed a bias towards the so-called principle of 'free competition'. CEPAL's theses on differential treatment according to the situations of the various countries, and its views on reciprocity from the standpoint of setting limits to a possible concentration of benefits, suggest that if it accepted the principle of 'free competition' it did so only on condition that this principle were complemented by corrective mechanisms —i.e., by some kind of regulation—, attributing great importance to the establishment of such mechanisms as might help to ensure a measure of equivalence, both quantitative and qualitative (type of goods), in trade flows. In this connexion it said: "If a country imported from other Latin American countries goods which it had formerly received from the rest of the world, whether it had or had not a deficit in its aggregate balance of payments, its ability to finance imports with additional exports would be a decisive factor in the smooth operation of the common market". (21) Not just any exports whatever would do: "It is also essential ... that the country thus receiving imports of manufactured goods should be able to cover them with its own exports of industrial products as well as of primary commodities". (21) As a system to promote reciprocity CEPAL proposed that reduction of duties should be stepped up in the case of countries with a balance-of-payments surplus and slowed down in that of countries with a deficit, in addition to which the necessary technical and financial assistance should be provided; but it also uttered a warning that some mechanism, presumably automatic in character, would also be necessary to guarantee that reciprocity was really respected in the operation of the market. (21) It did not propose formulas for this mechanism, but on several occasions insisted on the need for it, unfortunately in vain.

As can be seen, although CEPAL embraced, in this context, the 'free competition' theses, it did so with fundamental reservations. Nevertheless, it was more explicit in another allied respect, that of the system of allocation of resources, no doubt keeping in line with the course of the negotiations: "The specific solution arrived at after careful analysis is based on the following fundamental concept: it would be incumbent upon member governments to create conditions conducive to the efficacious action of private enterprise within the common market ... but it would be private enterprise that in the final issue would decide which industries were to be established, in which countries they were to be installed, and what degree of specialization was to be attained". (22) These words involve full acceptance of the function of the market mechanism in the allocation of resources, although with prices conditioned by preferential treatment and reciprocity; they also have a secondary implication, namely, recognition of the function of private enterprise in the operation of the mechanism in question. In its breadth of scope, the main thesis contrasts with the position adopted by CEPAL in Central America, where from the outset it advocated deliberate distribution of certain industries: strictly speaking, a sort of programming. The real conditions were different, of course, and in ALALC's case there was also the factor represented by negotiations to which the larger countries, and some of the others as well, brought the inflexible premise of 'free

5 "The pledge of reciprocity alone would perhaps not suffice to convince each and every country that the risk of damage to its interests would be minimal in comparison to the magnitude of the benefits accruing from the common market". (22)
competition', a position that left no room for the presentation of alternatives.

5. **The major instrument for the creation of integration industry consisted in complementarity arrangements or agreements**

Complementarity arrangements or agreements are one of the two important exceptions to the most-favoured-nation clause recognized by CEPAL, the other being preferential treatment. Their objective was the development of new integrated industries or the rationalization of the most important existing activities. The instrument envisaged took the form of sharper reductions of duties and charges than were necessary to reach the average levels in the preferential area.

CEPAL, while noting the risk attaching to such arrangements—"were agreements of this kind to become very common, they might give rise to exclusive groups which in the last analysis would hinder the formation of the common market"—also drew attention to their great advantages: this "is an exception calculated to promote, rather than to militate against, the final objectives of the common market". To avoid the risks, it suggested, taking up the recommendations made by the Working Group, that prior approval by the Committee on Trade Policy and Payments would be required, and that a definite time-limit might be imposed for such agreements. CEPAL viewed these specialization and complementarity agreements as one of the most efficacious instruments for the development of an integrated industry, and this is the basic justification for the exception to the most-favoured-nation clause—an exception which, as several observers noted, undoubtedly ran counter to the ideas on integration then in vogue. Subsequently, mention was made of these reservations, in particular by the representatives of the General Agreement on Tariffs and Trade (GATT) and the United States Government.

In the present writer's opinion, the theses described were the most important of those propounded by CEPAL on the subject of integration, but from them derive some other operational characteristics which CEPAL also postulated:

(a) the proposals for a liberalization mechanism based on reduction of duties to average levels, under which each country could distribute the reductions as suited it best, culminated in a system of detailed product-by-product negotiations, which seemed appropriate because of its greater flexibility;

(b) the efficacy of the instruments for safeguarding equity (preferential treatment, in particular the special concessions, and the provisions relating to reciprocity) depended upon the goodwill of the parties, and not upon rules laid down when the market was established and operating to some extent independently of the will of the parties affected, despite CEPAL's aforementioned insistence on the necessity for mechanisms that would ensure reciprocity, presumably more or less automatically;

(c) from the theses on the function of the market mechanism, private enterprise and competition (even if restricted), logically stemmed those relating to the integration organ, which, in such conditions, did not need to be invested with any functions but those of servicing the negotiations and performing a few other administrative and regulatory tasks. Where regulation was concerned, however, CEPAL attributed to this organ much more importance than it was accorded by some of the governments, which were anxious from the outset to reduce its responsibilities to the minimum. A propos of the many problems that might arise in the course of the negotiations, CEPAL asserted: "These problems could be gradually settled only at government level. Hence the supreme importance both of the Committee on Trade Policy and Payments, as the agency for these negotiations, and of the technical assistance which it would need in carrying out its functions". (15)
II

Evolution of ideas during the ALALC negotiations

The intergovernmental negotiations which led to the establishment of ALALC substantially modified some of the conceptions which, as has been shown, were CEPAL's theses when it began to promote Latin American integration. It is of interest to trace the evolution of these concepts, because it accounts for the form finally taken by the so-called Latin American regional market.

On the basis of the documents pertaining to the formal meeting, the negotiations can be divided into two phases whose characteristics are pretty clearly defined. The process of negotiation really began with the first meeting of the Working Group on the Latin American Regional Market (1958). The first session of CEPAL's Trade Committee (1956) mainly served the purpose of promoting the integration theses at the political level, whereas the convening of the Working Group made it possible to embark upon analysis of the elements of the formula, and de facto opened the negotiations, despite the fact that its members were participating in their personal capacity.

Generally speaking, at its two sessions the Working Group followed up the theses attributed to CEPAL in the preceding section. Actually in some cases there was undoubtedly interaction between the CEPAL secretariat's thinking and that of the Working Group, so that it would really be arbitrary to define sources. In any event, at the Group's two sessions the deliberations were based on the above-mentioned conceptions, and, in certain respects only, at the second session, held early in 1959, the Working Group displayed a tendency, especially on the part of some of the larger countries, to bring the characteristics of the formula closer to more exigent integration patterns, in line with the definition of the exceptions approved in article 24 of the General Agreement on Tariffs and Trade (GATT). Shortly afterwards this tendency was fully revealed at the meetings for consultations on trade policy held in April 1958, in which experts from the southern countries (Argentina, Brazil, Chile and Uruguay) took part in a personal capacity, and at which a 'draft agreement on a free-trade area' was drawn up. This draft definitely departed from the gradual, flexible and across-the-board approach which had prevailed in the Working Group, and prescribed a more exacting formula, which adhered more closely to the orthodox tenets of classical integration theory. Although at the second session of the Trade Committee (November 1959) the doubts and apprehensions awakened by this formula were expressed, no reversion to the earlier conception took place, and it was the model sketched out in the draft that was presented, somewhat flexibilized, at the meeting for negotiation at the governmental level which were to culminate in the treaty establishing a free-trade area and setting up the Latin American Free-Trade Association (Montevideo Treaty, 18 February 1960).

Thus the aforesaid consultations on trade policy marked a decisive change of course in relation to the conceptions by which Latin American integration had originally been inspired.

This brief review of the significant moments in the evolution of ideas on integration will be followed by an analysis of the changes these ideas underwent, in the same order as in the preceding section.

1. More exigent objectives in the integration formula

It has already been noted that CEPAL's initial thesis went no farther than the
construction of a preferential area. In the course of the deliberations, however, the objective became more ambitious, until it finally took shape in the decision to 'establish a free-trade area' recorded in article 1 of the Montevideo Treaty.

This was the most striking change introduced at the aforesaid consultative meetings on trade policy. In this connexion, there is a marked difference between the text of the draft agreement prepared during the consultations, and the bases drawn up by the Working Group. Article 1 of the draft agreement stated: “The Contracting Parties hereby establish a free-trade area which shall be fully operational within a period not longer than ten years from the date on which the agreement enters into force”. On the other hand, among the objectives mentioned in the text prepared at the second session of the Working Group, specific allusion was made to “the establishment of a preferential system for trade between Latin American countries”.

Clearly, therefore, it was only during the later periods of negotiation, in face of the virtual fait accompli represented by the agreement among the southern countries, that predominance was gained by the free-trade area proposition, which was finally incorporated in the Montevideo Treaty.

This change was much influenced both by the normative system of GATT and by the position of the United States, which did not fail to drop opportune reminders of the advisability of not departing from that system. The résumé of the statement made by the consultant Edmundo Barbosa da Silva, which appears as annex I to the summary record of the Consultations on Trade Policy between the CEPAL secretariat and experts from countries in the southern zone of South America, records in meticulous detail the analysis of the desirability of adopting the free-trade area formula in order to facilitate its acceptance by GATT, under the General Agreement on Tariffs and Trade, article 24, paragraphs 7 to 10. At the second session of the Trade Committee, the representative of GATT, after stating that he was glad to see “that the views of the Latin American countries were very close to those held by GATT”, remarked that “in establishing preferential systems, it was necessary to ensure that the interests of third countries were not harmed and that such systems were only applied at an initial stage, since the final aim should always be a competitive market without restrictions”.

The Government of the United States was still more explicit. At that same meeting the United States representative drew attention to what was, “in his view, the unsatisfactory nature of the scheme prepared by the Working Group. The creation of an undetermined level of preference without a concrete undertaking to proceed with the formation of the free-trade area was likely to produce a high degree of uncertainty”. Even earlier, in 1958, this unfavourable opinion had been conveyed by the United States Embassy in Rio de Janeiro in yet more drastic terms. “The United States would gladly see the establishment in Latin America of customs unions or free-trade areas which satisfy criteria in article XXIV of the General Agreement on Tariffs and Trade”.

This shift towards a more exacting objective, i.e., a free-trade area instead of a preferential area, was unquestionably the essential change in the concepts relating to the regional liberalization programme, and,
as we shall see later, largely accounts for what has happened to ALALC.

The other characteristics of the liberalization programme were defined in detail in the course of the deliberations, but in essence CEPAL’s original ideas were maintained. The programme was to be universal in its scope and gradual and progressive in its application. The distinction between a first phase with a liberalization programme predetermined within specific limits, and a second phase covering the final construction of a formula for a higher degree of integration, either a customs union or a common market, disappeared in the Montevideo Treaty, which contains only a courtesy reference to the subject in article 54: “The Contracting Parties shall make every effort to direct their policies with a view to creating conditions favourable to the establishment of a Latin American common market”.

The first—and in the end the only—phase of the liberalization programme was extended from the ten years envisaged in all previous documents to twelve in the Montevideo Treaty. Furthermore, the substages through which liberalization had to pass, as well as the distinction between categories of goods and the corresponding differences in the reduction of duties that appear in the bases prepared by the Working Group at its Mexico session, are superseded in the Draft Agreement on a Free-Trade Area resulting from the Consultations on Trade Policy by what is apparently a more flexible system, and such concepts are formally introduced as ‘substantially all trade’, the ‘weighted average’ and the ‘basic schedule’, which in the Montevideo Treaty was to be called the ‘Common Schedule’. The programme and basic concepts of this draft were transferred almost unchanged to the Montevideo Treaty, which thus incorporated the GATT idea of exceptions in relation to the free-trade area.

Certain changes, of form rather than of substance, were also effected in the exceptions to the application of the most-favoured-nation clause and in the scope of the escape clauses. Generally speaking, if the ideas of CEPAL and of the Working Group are taken as a starting-point, the predominant tendency was to restrict the scope both of the exceptions to the most-favoured-nation treatment and of the escape clauses themselves. The bases established by the Working Group acknowledged four exceptions:

(a) preferential treatment for countries in the initial stages of development; (b) complementarity agreements; (c) existing preferential concessions whose elimination would have to be gradual; and (d) Central American countries.

In the Montevideo Treaty three types of exceptions to the most-favoured-nation clause are accepted: frontier trade (article 19), complementarity agreements (article 17) and measures in favour of less developed countries (chapter VIII). With the elimination of the exception for the Central American integration movement the seal was set on the restrictive character of the regional market, the first symptoms of which were observable in the southern countries’ draft agreement on a free-trade area.

As regards the existence of escape clauses, the original ideas were maintained in general, although they underwent modification, especially with respect to application procedures, for which in the end more extensive faculties were accorded to the administrative organ: the Standing Executive Committee.

If any general conclusion can be drawn from these conceptual trends as to the scope and characteristics of the liberalization programme, or, in other words, of the opening-up of markets in the area, it is that during these negotiations the objectives became more ambitious and exigent, and that the system tended to square more exactly with a formal model mainly determined by the exceptions approved in article 24 of GATT. The system gained in operational precision, but lost in breadth and flexibility. As will shortly be seen, from the time of the Consultations on Trade Policy...
the idea of a great Latin American regional market was relegated to a secondary plane, and the formula offered no concrete possibilities for its construction. These consultations and the aforesaid influence of the orthodox tenets of GATT are undoubtedly the two determinants of the evolution described.

2. Reduction of the geographical scope of the formula

In the foregoing section mention was made of the evolution of the formula towards a more restricted country coverage than had been originally advocated by CEPAL. This seems to have been the result not so much of any intention to limit its scope as of the formal requirements of the free-trade area which, in the end, was the model chosen. Influence was also exerted by the haste or urgency with which some countries approached the negotiations, especially the countries in the southern zone, which were, moreover, very reluctant to recognize sub-regional agreements, and little disposed to welcome preferential treatment or any other kinds of exceptions to the most-favoured-nation clause.

The CEPAL theses relating to the geographical scope of the formula found support at the first session of the Working Group, but at the second a more rigid attitude made its appearance.

In Basis VII for the Latin American Regional Market, established at the session in question, the Group still maintained that "the common market must include all the Latin American countries or the greatest possible number of them", but it immediately acknowledged the possibility that a first the common market might have to be launched by "an initial group of countries". (41) More explicitly, in the "Comments on the recommendations", the Group identified that possible initial nucleus: "The fact that the trade of seven countries in the southern area makes up about 90% of the total trade among Latin American countries (petroleum excluded) readily suggests that these countries might act as the initial nucleus of the common market". (48) This particularizing tendency runs parallel to a less flexible attitude towards possible sub-regional groupings. In this latter connexion, the Working Group followed the lines laid down by CEPAL, which, as has been shown, regarded as inadvisable any attempt at subregionalization, with the sole exception of the Central American integration programme. The group considered "that the formation of other types of groupings of countries, through exclusive arrangements, could be an obstacle to the creation of a Latin American common market". (48)

As in other respects, the Draft Agreement on a Free-Trade Area negotiated by the four southern countries mentioned above constituted a definite divergence from the original propositions regarding general applicability. Although under the provisions of article 40 the Agreement was "open to access by all Latin American countries" (105), in actual fact it represented a manifestation of an interest in association confined to part of the continent. There were, of course, reasons why the group of countries concerned wanted to forge the bond of integration as quickly as possible; the chief of these was the dissolution of bilateral trade arrangements, by which they had been especially affected. But apart from that urgent motive, underlying this geographical restriction there was also a sense of the importance of that 'initial nucleus' in which at the time a major part of Latin America's trade was concentrated.

Similarly, it is in this Draft Agreement that a certain inflexibility towards possible subregional groupings is most clearly in evidence, reflecting a greater reluctance to consider any exceptions to the most-favoured-nation clause — a position which during the second session of the Trade Committee was still further consolidated, perhaps precisely because of the reaction provoked by the four southern countries' initiative. Criticisms of it, in fact, were combined with
expressions of opposition to partial customs arrangements on the part of several countries, including particularly Venezuela and Cuba.

Thenceforward, in the negotiations of which the final outcome was the Montevideo Treaty, the objective of across-the-board integration for the whole of Latin America made no further appearance, except in the guise of a ritual enunciation. It was not until 1967 that references were once again found, in the Declaration of the American Chiefs of State, to the Latin American scope of integration and the possibility that programmes might converge. The fact is that when the Montevideo Treaty was signed, the so-called 'generality' existed only as sheer formulism, and in practice all flexibility for the accommodation of subregional movements, including the Central American integration programme itself, had been lost. Even though article 58 of the Montevideo Treaty declared it "open to accession by the other Latin American States", it was obvious that accession was becoming increasingly difficult for the countries of smaller size and farther removed from the southern zone of South America, which were those principally remaining outside the free-trade area.

3. Restriction of the content of the preferential system and the key function of the special concessions

The CEPAL theses on differential treatment in accordance with the countries' situations emerged from the negotiations with changes that limited their scope, but left intact their essential instrument: the special concessions. It is worth while briefly to trace the evolution of ideas in this connexion, as a means of assessing the opposition aroused by these conceptions from the very start, and the actual limitations of the formula adopted.

The Working Group, at its two sessions, developed on broad lines the existing ideas on a preferential system. During the second session, the Group worked out this system in great detail, using, as CEPAL had done, three categories of goods and of countries. There is no need to describe the bases prepared by the Group in this connexion, for they faithfully reflect CEPAL's thinking. Suffice it to point out that in these bases the instruments of preferential treatment are already clearly defined: higher average levels of protection for those categories of products in which development is incipient, and non-extensive special concessions, which are introduced into the formula as exceptions to the most-favoured-nation clause, and afterwards constituted the basic instrument of the preferential system embodied in the Montevideo Treaty.

The subsequent discussions at the political level, however, show how controversial the topic continued to be and how superficial was the grasp of the problem even in the interested countries themselves: those of incipient development or, in general, the weaker countries. Surprisingly, in the light of our present appraisal of the integration phenomenon, the southern countries' Draft Agreement on a Free-Trade Area included no preferential system. It should be recalled that among the possible signatories of this draft were Chile and Uruguay, together with Brazil and Argentina, and that the first two were later to request preferential status within ALALC.

It is not to be wondered at, therefore, that some of the elements of the system envisaged by CEPAL were not incorporated in the Montevideo Treaty. Thus, no advantages were accorded to the middle category of countries —those whose markets were insufficient— nor was a preference included which took the form of greater protection for those categories of products in which development was incipient in the beneficiary country. In reality, the Treaty established no distinctions between goods, and therefore left the level of protection entirely to the mercy of negotiations between the parties.

Nevertheless, as was stated earlier, the most important instrument of the CEPAL propositions stood its ground: namely, the special concessions, which became virtually
the only preferences adopted in the Montevideo Treaty. Although article 32 also empowered the Contracting Parties to accord the relatively less developed countries a higher level of protection, as well as other advantages, in practice the system was centred on the special concessions, partly because the very stagnation of the liberalization programme detracted from the effectiveness of the passive preferences based on the existence of differing rates of reduction of duties in different countries.

In view of the spirit in which the participants signed the Treaty, however, it is significant that the distinction originally established by CEPAL between categories of products should have been eliminated, because it would have been the factual and predetermined element (not dependent upon product-by-product negotiations) in the application of these passive preferences. The distinction between products disappeared when the formula changed its objective from a preferential area to a free-trade area. For the reasons given, the fact was of no great practical importance, but it reveals an unwillingness to acknowledge differences between countries, which was most clearly evidenced in the suppression of the middle category referred to above.

The instrument that finally remained—the special concessions—was the element that CEPAL considered essential if integration was to function equitably. It also constituted the authentic innovation in ideas on differential treatment. Despite the mutilations suffered by the system that CEPAL had proposed, its essence was respected, so that any criticisms that may be levelled at the validity of the preferential system established in the Montevideo Treaty are also fundamentally applicable to CEPAL's ideas on the subject, and, therefore, to the predominant conceptions, to the so-called 'state of the arts', with respect to integration. When this topic is reverted to later on, a reminder will be given of some of the characteristics of the outlook in question, which was also reflected in CEPAL's opinion on negotiations in a framework of free competition, and the acceptance of qualitative differences—among others—between the industrial specialization of the countries of incipient development and that of the more advanced countries.

4. Subjection of the opening-up of markets to the principle of free competition, and the function of the price mechanism

The period in which the theses on Latin American integration were gradually maturing coincided with region-wide criticisms of the efficacy of the market mechanism in face of economic development requirements, and with efforts on the part of almost all governments to set national planning systems in motion. Yet the negotiations on economic integration were conducted with the most scrupulous respect for the liberal theses on the virtues of the 'invisible hand' of the market, free competition and the role of private enterprise in economic integration.

One of the reasons for this ambivalence was undoubtedly the vigour with which the larger Latin American countries advocated such theses as basic principles of the integration in which they were interested; from the outset these tenets were propounded as if they were authentic political conditions for initiating negotiations that would have any prospects of materializing. Moreover, the existing theoretical models for economic integration—which the Treaty of Rome seemed to be the most important application—were all based on liberalization processes which were founded on those same principles. Whether to serve national interests or from genuine conviction, the fact of the matter is that in all documents prior to the Montevideo Treaty the propositions in question are repeatedly stated as guiding principles for the so-called Latin American regional market. The only corrective of 'free' competition allowed was the preferential system for the relatively less developed countries, since CEPAL's ideas of imposing limitations on the price system to ensure
reciprocity met with no response among the negotiating parties.

As from the time of the earliest document prepared with the participation of national experts, i.e., the report of the first session of the Working Group, respect for the market mechanism and the function of private enterprise are brought into prominence as basic principles. The most categorical declaration on this point is to be found in Base V: “The specialization in industries and other activities which is one of the objectives of the regional market must be the outcome of the free interplay of economic forces…” “It is inconsistent with this principle to accord specific countries the exclusive right to install certain industries or activities, or to impose restrictions on free competition, except as regards the special features of the integration programme of the Central American countries, which in this context must be considered as a single unit…”. (31) This really implied a veto not only on any kind of programming of activities in the new area but even on any negotiation explicitly concerned with the allocation of industries, such as was then already being discussed by the Central American countries, and CEPAL itself, in relation to the so-called integration industries.

Some of the comments on the thesis stated above clarify its meaning still further: specialization “should come about as the result of the free interplay of interests, which is not incompatible with effective guidance through financial agencies. But in no case should it lead to exclusive arrangements which prevent competition or the entry of new enterprises”. (33) Guidance was considered allowable through financing, but on no account through instruments that would intervene in the opening-up of markets, i.e., those proper to the integration process.

The logical corollary of this attitude is the conception of the central —theoretically indeed unique, to judge from the terms employed— position of private enterprise in economic integration. The report of the Working Group itself, in explaining the criterion adopted for the purposes of complying with the mandate to draft the bases for the regional market, declares: “In formulating them, the Group has been guided first and foremost by the idea that such bases will be effective only in so far as they offer ample opportunities to private enterprise and its achievements. The governments will plan the structure of the regional market, but it will be for private enterprise to give it life…” (30) As in the case of the emphasis laid on respect for the market mechanism, this apologia for the function of private enterprise is probably dictated less by ideological motivations than by the interests of the countries whose private enterprise is more powerful and dynamic.

Both the report of the second session of the Working Group and the southern countries’ Draft Agreement on the Free-Trade Area omitted all reference to these principles, although they structured in some detail an integration system entirely based on them. The topic is dealt with explicitly only in one of the annexes to the report of the Consultations on Trade Policy, which contains a memorandum from the United States Embassy in Rio de Janeiro; it declares that the support of the United States for preferential arrangements would depend upon whether they “would promote the efficient allocation of resources on a competitive basis…” (102) Well-known, moreover, is the steadfast opposition of the United States Government to the system of integration industries in the Central American Common Market, on the grounds that exclusive arrangements were thus established which interfered with free competition.10 Undoubtedly, during this phase of the negotiations the official statements of the United States Government were invoked as powerful arguments in favour of the foregoing theses, and, as was remarked above, in support of the free-trade area formula.

10 Constantine V. Vaitos, Crisis in regional economic co-operation (integration) among developing countries, in typescript, p. 25 et seq.
With the progress of the negotiations that culminated in the Montevideo Treaty, the principle of competitiveness and the importance of private enterprise gradually became virtually undisputed postulates, acceptance of which was taken for granted.

Thus, in all the documents that reproduce the results of the deliberations and, sometimes, the positions of governments or national experts, only on one occasion is a definite reservation expressed with respect to the virtues of the market mechanism and, in general, the desirability of the above-mentioned principles. It appears in the report of the second session of the Trade Committee, and forms part of a declaration made by the representative of Bolivia in relation to resolution 6 (II), to the effect “that the basic requisite for an effective common market was equality among member countries, so that equilibrium among their economies could be created and maintained. Free trade tended to aggravate the disparity between the more and less privileged countries”, since “the latter found themselves compelled to offer their goods at abnormally low prices”. (134)

The other original characteristics of the formula underwent no substantial change in the course of the negotiations. The concept of complementarity agreements or arrangements as a basic instrument of integration industry was maintained. As already pointed out, the Working Group approved this exception to the most-favoured-nation clause, formally limiting its duration and establishing the need for prior authorization by the Committee on Trade Policy and Payments. The southern countries' Draft Agreement on a Free-Trade Area, in article 15, sanctioned such arrangements, even in cases where they associated a Contracting Party with third countries in Latin America, always provided that they were negotiated through the Committee. (103) Articles 16 and 17 of the Montevideo Treaty reproduced the essence of the original ideas on the subject, declared that the agreements were open to the accession of the Contracting Parties, and established a posteriori authorization via the expedient of a decision that they were consistent with the principles and purposes of the Treaty. Neither in this Treaty nor in the Draft Agreement are deadlines set, since they became needless when the objective was changed from a preferential area to a free-trade area.\(^{11}\)

In the last analysis, the exception retained all its importance. Theoretically the possibility was open to all, and especially to the relatively less developed countries, which, in accordance with subsequent reforms, could take advantage of the agreements without negotiating their accession. In practice, such arrangements were made in respect of fairly large-scale industries in which decisive importance attached to the bargaining capacity of the bigger countries at more advanced stages of industrial development. Their existence, in a setting in which competition was a basic principle, combined with the above-mentioned limitations imposed on preferential treatment, heavily weighted the scales in favour of those more powerful countries.

As regards the functional characteristics of the market —largely a corollary of the theses which finally prevailed in the formula, especially those relating to the principle of “competition” as the supreme operational norm—, the negotiations tended to repudiate automatic mechanisms and as far as possible to prevent regulatory action on the part of the integration organs. Specifically, in order to preclude anything resembling communal influence in the basic integration decisions, the successive texts in which the results of the negotiations were embodied said nothing of what the CEPAL secretariat had asked for as a means of ensuring that reciprocity really worked in practice. In the same spirit, the system for opening up the market was also retained intact, and in view

\(^{11}\)Except for the very remote possibility that products covered by such agreements might be excluded from the corresponding schedules under the liberalization programme.
of the characteristics of the formula, took the shape of product-by-product negotiations.

In both cases, the absence of commitments allowing a measure of automatism left the entire functioning of the integration process, down to its smallest details, dependent upon government decisions and, therefore, upon a continuous quest for a consensus which presupposed a permanent spirit of goodwill in the Contracting Parties. Furthermore, the possibility of communal action accorded to the integration organs, both those of a governmental character and, in particular, the CEPAL secretariat, was slight or non-existent. This attitude is clearly reflected in the wording of the Working Group's comments, at its second session, on the subject of "Measures to remedy balance-of-payments disequilibrium". With reference to the position of a country with a surplus, it said: "In that event, the Committee should advise it to adopt further liberalization measures so that, through the resultant increase in its imports, it can help the debtor countries in their development".\(^{(50)}\)

This version of the characteristics of the highest integration organ was so colourless that the Working Group itself, at its second session, had to go farther. Basis XI stipulates: "For the purpose of administering the agreement and facilitating the attainment of its ends, a Committee on Trade Policy and Payments composed of representatives of all the member countries will be set up to carry out the negotiations arising from the agreement".\(^{(42)}\) Thus the Committee was given the character of an administrative organ and a forum for negotiations, although its action was still kept within as narrow bounds as possible.

The forms of organization which were finally established in the Montevideo Treaty were not without a precedent in the southern countries' Draft Agreement on a Free-Trade Area. This draft included provisions relating both to the Committee, which was to be a permanent body, and to an executive secretariat; in its article 28 it specified the functions of the Committee, which corresponded in essence to those of a forum for negotiations and an administrative organ. There were no signs of a regulatory, much less a planning, function, and the projected executive secretariat lacked any possibility of acting on its own initiative, although the Committee was allowed a certain amount of latitude as regards adopting decisions on some matters,\(^{(14)}\) which was maintained, although in an attenuated form, in the Montevideo Treaty.

\(^{12}\)The italics are the present author's.

\(^{13}\)The italics are the present author's.

\(^{14}\)For example, the possibility of temporarily exempting less developed countries from obligations in respect of reciprocity.
III
Integration movements in the developing world and their principal problems

Apart from the intrinsic importance of these efforts as an example of Latin American cooperation in whose gestation CEPAL's influence played a decisive part, analysis of the evolution of those ideas which finally took concrete shape in ALALC is of interest as an aid in understanding the characteristics of the integration patterns that saw the light in the developing world during the 1960s.

Chronologically, ALALC, set up in February 1960, was the first integration formula devised by developing countries. The East African Community dates back even earlier, following on from colonial times, but only in June 1967 did an agreement emerge which emanated entirely from motivations on the part of self-governing countries. The chronological precedence of ALALC does not mean that it influenced the characteristics of the other integration movement either in the American continent or in Asia and Africa, but it does indicate the tendencies then prevailing. Its features constituted the first manifestation in the developing world of a conception of economic integration which had stemmed not only from the specific example of the Treaty of Rome and from the GATT regulations, but also from the views predominant in international economic theory and, more specifically, in what was known as customs-union theory.

For reasons linked more to negotiation proceedings than to concepts, ALALC was also a sort of extremely simplified model of integration based on competition. But some of its central characteristics tended to be reproduced in the other programmes; only in 1969, with the creation of the Andean Group, was there a definite split in basic principles. These affinities between the conceptual origins of integration formulas are, accordingly, very useful for the purposes of a critical appraisal of the objectives and instruments chosen, since such a critique would not be grounded on ALALC's experience alone, but on everything that has been done in this connexion in the developing world since 1960, with the consequent considerable enrichment of the field of observation.

In the light of these considerations, the present paper will contain no description of what has happened in each of the Latin American integration movements, but an attempt will be made at a generalized statement of the principal problems they have encountered, with the intention of examining the causes of these difficulties and acquiring a better knowledge of the elements that influence the viability of integration. Only then, in the writer's opinion, will it be possible to arrive at a critical view of those conceptions, whose manifestations in ALALC have been enumerated in sections I and II of the present article.

A list is given below of the integration groupings in the developing world which have been studied for the above-mentioned purposes, in the chronological order of their establishment and with a note of the acronym by which they are most commonly known. The list comprises only those organizations whose objectives include integration of markets in any of its forms.

Latin American Free-Trade Association (ALALC) February 1960
Central American Common Market (MCCA), with its immediate antecedents in the Multilateral Treaty signed in 1958 December 1960
Arab Economic Unity Council (CAEU), within which four States have acceded to the Arab Common Market in force since 1971 April 1964
Central African Customs and Economic Union (UDEAC), with a new Treaty signed in 1974 and in force since January 1966 East African Community (EAC), whose antecedents date back to 1917, with the establishment of a customs union between Kenya and Uganda June 1967
Caribbean Free-Trade Association (CARIFTA), which became the Caribbean Community (CARICOM) in 1973 May 1968 East Caribbean Common Market (MCCO), a subregional grouping within CARICOM June 1968
Andean Group (subregional grouping within the Latin American Free-Trade Association) May 1969
Economic Community of West African States (ECOWAS) May 1975

As already noted, the list does not include those groupings of States whose constitutive treaties do not establish economic integration mechanisms, such as the Council of the Entente States and the Maghreb Permanent Consultative Commit-tee in Africa, the Association of South-East Asian Nations (ASEAN) in Asia, and the Regional Co-operation for Development Organization formed by Iran, Pakistan and Turkey. Nor do any appear in the list which although they had intended to set up such mechanisms were unable to put them into effect, as is the case with the African and Malagasy Common Organization (OCAM) or the West African Economic Community (CEAO).16

Without going into details, it may be asserted that today the situation of the great majority of such integration movements is discouraging. Only two of them are operating with political vitality and in conformity with their constitutive provisions. These are the Andean Group and the Economic Community of West African States (ECOWAS). Of these, ECOWAS established its secretariat less than two years ago, and the first commitment relating to the opening-up of the market (the tariff statu quo clause) was to be brought into application in January 1978; the movement has begun with resoluteness and political will, but it is in an initial phase which precludes comparison of its development with that of other programmes. The Andean Group set up its secretariat in 1970, and its principal mechanisms, including the opening-up of markets, are in operation, despite sporadic failures to comply with requirements; it has not been free from crises, however, among them that which culminated with the withdrawal of one of the members of the Group, namely, Chile. This conflict, in addition to negotiation difficulties, kept it virtually in a state of stagnation from 1975 to September 1977, in which year it managed to struggle out of the morass, thereby becoming the only integration programme among developing countries with a few years of existence behind it which has maintained its dynamism; a situation that certainly gives food for serious thought.

16 See the annex for the list of countries members of the groupings mentioned, with some basic data on population and product.
Of the rest, the East African Community, the oldest of the integration movements if one looks back to its antecedents in colonial times, is on the point of dissolution, following the collapse of its common services in 1977 and the closing of the frontiers between some of its member countries. The Caribbean Community seems to be sunk in a profound crisis which may endanger its very existence, as well as the future of the East Caribbean Common Market. The Latin American Free-Trade Association and the Central American Common Market are at a standstill, and their legal instruments need a thorough overhauling which has been deferred up to now. The Central African Customs and Economic Union (UDEAC) is still formally extant, but limitations on the opening-up of markets and instances of non-compliance with its provisions have detracted from its vitality as an integration system. And, lastly, the Arab Economic Unity Council may be considered an association of States for economic co-operation, but not an authentic market integration movement. In practice, most of the provisions agreed upon are not complied with, and the Arab Common Market is in its initial phase, without much prospect of materializing. Despite the obvious potentialities of this movement as regards the execution of multinational projects of interest to two or more member States, hitherto integration objectives have not been viable.

In short, with the exception of the Andean Group and the nascent ECOWAS, all the other integration groupings in the developing world today are in a state of stagnation and conflict—which in this case is almost invariably tantamount to regression—or have deviated from their objectives and can no longer be viewed as integration programmes. One of them, as already pointed out, has entirely ceased to function and is running the risk of final disruption, which is the more regrettable inasmuch as it was one of the oldest and the most effectively articulated. Such a balance-sheet is bound to be a motive of concern for all those who have the development of the Third World at heart. The attention of specialists in the subject has long been engaged by the theory of economic integration and the analysis of its possible effects. Integration instruments have been the object of meticulous examination and pertinent recommendations abound in the literature of the speciality. The real-life experience of integration programmes, however, has left behind it a trail of conflicts and failures which are in contrast with the faraway optimism of scientific lucubrations on this topic.

Observation of the vicissitudes undergone by these groupings shows remarkable coincidences. With variants arising out of the special circumstances of each programme, there is a pattern that prevails in every case. Accordingly, with the inevitable simplifications, it is possible to pinpoint a set of basic problems, to outline which, as an initial hypothesis, is the aim of these pages.

In accordance with a definition based more on the origin of the problems than on the forms they take, the principal conflicts besetting the integration movements of developing countries can be summed up as follows:

(i) incompatibility of political systems with integration in general or with the mechanisms chosen to achieve it;

(ii) problems of political relations between the States, often with territorial (geopolitical) connotations;

(iii) differences between member countries in respect of the industrial development attained, and their potential or capacity for such development, a problem which manifests itself chiefly in the dissatisfaction of some of these countries with the distribution of the costs and benefits of integration;

(iv) other differences in economic structure between the member countries, which affect the operation and therefore the objectives of the integration mechanisms.

As can be seen, of the conflicts listed the first two are of a primarily political character; when they are present, integration lacks a favourable political framework and its eco-
nomic implications are largely irrelevant. The other two problems are directly related to the economic motivations of integration and the operation of its mechanisms, and it is therefore principally to these that we shall devote attention in the following pages, although not without first briefly defining the scope of the two political problems.

1. Incompatibility of political systems

The two cases in which this sort of conflict has definitely arisen\(^\text{17}\) clearly illustrate its nature and seriousness. In the Andean Group, Chile’s position in opting for integration with the world market as the final objective of its economic policy created an essential incompatibility with the spatially limited integration of the Andean Group. The conflict concerning the level of the Common External Tariff is one expression of this incompatibility. In default of a change in the original positions, the only solution for the problem was the one finally adopted: the withdrawal of Chile.

In the other case, that of the problems caused by State trading in the East African Community, the incongruity between political systems seems less obvious because, in the end, both Tanzania on the one hand and Kenya and Uganda on the other resorted to State trading organizations which in a greater or a lesser degree interfered with the tariff liberalization mechanisms which the Treaty used as its principal instrument. Strictly speaking, however, it was Tanzania, a socialist country, with its State Trading Corporation, that began to segregate products which were reserved for State trading, especially where imports were concerned. With the contemporary nationalization of enterprises, the list grew longer, and the STC was divided into several corporations, many of which, besides being producers, held a monopoly of imports of the corresponding products.\(^\text{18}\) Inevitably, the other countries saw in this kind of organization a means of evading considerations of costs and prices and illegitimately restricting imports. Largely as a reprisal, Kenya set up its National Trading Corporation, and Uganda followed suit.

Apart from the special features of each case, it is of importance to single out the form of incompatibility that may emerge in integration programmes combining countries with market economies —i.e., sovereignty of the consumer and allocation of resources through the price mechanism— and socialist countries, characterized by planning of foreign trade and monopolistic State trading of most of their production, in particular imports and exports. None of the usual systems for making markets more open can function in such conditions: in the socialist country the reduction or elimination of tariff duties is basically ineffectual as an inducement to buy and, conversely, if the opening-up system is based on the planning of trade, the country with a market economy has no instruments for really complying with the stipulations of the programme. This functional incompatibility of systems differs from the case first stated —incompatibility with free trade à l’outrance— inasmuch as there the very motivation for integration is lacking, which is not a necessary assumption in respect of the functional incompatibility described.

Essential incompatibility was exemplified in its unadulterated forms in the Andean Group; functional incompatibility appeared, with its outlines somewhat blurred by the weight of other problems, in the East African Community. At least as an ideological discrepancy, it would also seem to be present in CARICOM. In a world of mixed economies like that of the developing countries, what is most probable is that this

\(^{17}\) The position as between CARICOM and Guyana is not taken into account because, according to the information available, there is no record of incompatibility between mechanisms, although ideological divergences do exist.

\(^{18}\) See Arthur Hazlewood, op. cit., pp. 124 and 131.
contradiction will not occur in pure forms, but through fragmentary and limited interventions by State enterprises which restrict certain trade flows. Possibly, too, in consequence of the course of history, or other causes that determine an economic structure, the sphere of action of State enterprises may vary greatly among member countries; in that case, instead of incompatibility of political systems, structural differences would be a more accurate term: heterogeneities that affect the scope and instruments of integration. This problem falls into a different category, which will be dealt with later under the head of “Other differences in economic structure”.

2. Conflicts in political relations between member States

This broad heading covers all sorts of conflicts between members States that are brought about by causes alien to economic integration. It is easy to understand that such situations, when they are sufficiently serious, wipe out the very possibility of integration. This is what has happened in the case of Honduras after its conflict with El Salvador, in the Central American Common Market. Even the mere existence of tense situations in inter-State relationships has repercussions on integration. Suffice it to recall the effect on the fortunes of the East African Community produced by the impossibility of convening its maximum organ, the East African Authority, formed by the Chiefs of State, owing to the refusal of President Nierere of Tanzania to meet Idi Amin of Uganda.

Problems of this kind can arise in almost all integration movements in the developing countries. The countries concerned are physically adjacent, often with territorial or other disputes in their history, and have been incited to seek integration, inter alia, by their desire to find ways of improving their relationships and their possibilities of resolving such problems. But for that very reason, these efforts are extremely sensitive to the general tone of inter-State relationships.

3. Differences between member countries in respect of the degree of industrial development attained and their capacity for such development

It is almost a commonplace to say that one of the most frequent causes of conflicts in integration among developing countries is the distribution of the costs and benefits of integration. Customs union theory measures this distribution in terms of creation and diversion of trade, but in reality the decisive element in the political evaluation of its results is the extent to which countries participate in the siting of the new industries which integration makes possible.

Industrial development is the fundamental incentive to integration among developing countries. The political evaluation of benefits tends to be based, in the first place, on the degree to which the integration formula effectively permits such development, in particular the installation of new integration industries, and, secondly, on comparison of the results obtained by each of the countries participating in the integration programme. The evaluation may also be influenced by the expansion and balance of trade flows, since the desire to increase them is another motive for integration. However, at least in the earliest stages of integration movements, this consideration seems to come second to participation in integration industry. It should be noted that even the oldest integration formulas in the developing world are still in those initial phases in which the aim is to construct a different industrial base, taking advantage of the new economic space available. Consequently, the mere volume of trade flows is not usually of central importance for the purposes of evaluation; on the contrary, more account is taken of the proportion of traditional and new (almost always manufactured) products in those flows, which re-
flects the impact of the industrial development induced by integration.

Dissatisfaction with the results largely explains the sluggishness of the Latin American Free-Trade Association; the conflicts and what may, up to a point, be considered the regression of the Central American Common Market; the disruption, which has every appearance of being final, of the East African Community; the stagnation of the Central African Customs and Economic Union; and, to a great extent, the current problems of the Caribbean Community. And even the difficult period through which the Andean Group has passed may be attributed above all to the stumbling-blocks met with in the negotiation of the industrial programmes.

The fact that does most to account for this dissatisfaction is the existence in the groupings concerned of marked disparities between member countries in the degree of industrial development attained or, at least, in their capacity to serve as a basis for integration industry. In all of them some countries stand out as those with the greatest potentialities. Within the East African Community, the supremacy of Kenya has been the apple of discord in its principal conflicts. In the Central African Customs and Economic Union, the country best endowed and in the most advantageous situation for industrial development is Cameroon; in the Latin American Free-Trade Association the corresponding position is occupied by Argentina, Brazil and Mexico, the three largest countries; in the Central American Common Market, by Guatemala and El Salvador; in the Caribbean Community, by Trinidad and Tobago and all the bigger islands, over againsts the less developed countries grouped in the East Caribbean Common Market; and in the Andean Group, Colombia and Venezuela are outstanding.

The dominant position in each grouping does not necessarily correspond to a country's superior economic size or appreciably higher per capita income. (See annex.) What matters is the degree of industrial development attained, inasmuch as it implies greater capacity to take advantage of the benefits of integration in this field—a characteristic which is displayed in the volume and composition of trade with the other members of the grouping—and also the way in which some of the member countries perceive the advantages over them that others may enjoy by virtue both of their resources and of their policies.

To sum up, if one tries to get to the bottom of the problem, the major source of conflicts in integration among developing countries appears to be the heterogeneity of the countries affiliated to such groupings in respect of the industrial development achieved and the capacity to exploit the opportunities offered by integration industry. This is no new pronouncement, since it figures in all the analyses relating to specific situations in integration movements. What is surprising is that its significance has not been recognized in an integration theory which, obviously, has overlooked the fact that in the developing world heterogeneity may be much more marked than among industrialized countries, and that it is pregnant with real or psychological implications for integration prospects and instruments.

As far as can be seen, this heterogeneity influences integration in two ways. In the first place, as has already been remarked, it induces mistrust on the part of the weaker countries (an ex ante attitude) or dissatisfaction at the distribution of benefits (an ex post attitude). These two reactions together tend to limit the scope of integration and even, as has been shown, to set it back. But that is not the only way in which heterogeneity can affect integration. It may be assumed that, ceteris paribus, the motivations\(^9\) for integration will differ in intensity.

\(^9\) The writer is conscious of the simplification implied by a concept of collective motivations in dealing with such phenomena as integration, which affect different social groups in different ways. In the present case, however, this simplification is useful as a method-
as between a country with a relatively large domestic market and other conditions favourable for industrialization, and another with a smaller domestic market, less industrial tradition and, in general, inferior capacity for industrial development, however this is measured. The second may reasonably be expected to have stronger incentives to seek thoroughgoing forms of integration. The two countries will pursue different integration objectives, and the mechanisms they prefer will be different likewise. Their participation in the same integration formula will result in a tendency either to reduce the scope of the objectives and weaken the mechanisms —when the opinion of the larger and more industrially advanced country, which is usually the one with superior bargaining capacity, carries the day—, or to concert integration objectives and patterns which will subsequently prove non-viable in their full depth.

The first situation occurred in the case of ALALC, where the more powerful countries managed to exclude any system which might effectively give an opportunity to the weaker countries in integration industry. The result was, as has been stated, continual dissatisfaction on the part of the latter and, in the end, the stagnation of the process. The second situation —a formula with ambitious but non-viable objectives— seems to be that of the Arab Economic Unity Council, which embraces an extremely heterogeneous set of countries.

In considering the influence of the differences in capacity for industrial development and in intensity of motivations for integration which probably go hand in hand with the aforesaid heterogeneity, some thought may also be given to another factor: the economic size of the integration area, or, more exactly, how far its dimensions as a market will permit of the change in industrial structure which it is hoped will be achieved through integration. In integration areas of small economic dimensions the motivations in question are less strong, especially in the case of those countries participating in the programme whose capacity for industrial development is greatest. In addition to other economic effects —such as the steadily increasing dependence on imports of industrial raw materials and intermediate products from third countries which is observable, for example, in CARICOM—, the small size of the expanded market may undoubtedly contribute per se to aggravate the discontent and discordance about objectives and mechanisms. Ceteris paribus, a larger integration area would be less liable to conflicts of this kind.

Without attempting to carry this analysis farther, it may be asserted that the disparity in industrial development and in potentialities for it, the particular combination of countries participating in each integration formula, and the possibilities afforded by the new space, particularly in terms of its economic size, join in creating situations either more or less favourable to integration and to the application of the various instrumental alternatives for conducting the market integration process. These are aspects of the problem which have been mainly overlooked, and to which integration theory will have to give due weight in the future.

From the standpoint of integration policies, only one of these phenomena stemming from the heterogeneity of the affiliated countries has been especially taken into account in the selection of integration mechanisms: namely, the tendency towards concentration of the benefits of integration, especially industrial development, in the economically more advanced and more powerful countries.

In all the integration formulas studied, an attempt has been made to establish treatments in favour of the weaker countries which will help to offset their disadvantages in the integration process. Cases in point are...
afforded by ALALC's special lists of non-reciprocal concessions and the 'transfer tax' of the East African Community. In Africa in particular, compensation has also been sought through redistribution of customs or tax revenue; in addition, some of the groupings expressly state that among the objectives pursued by their industrialization policy mechanisms is included the achievement of what is described as the 'harmonious and balanced' or 'equitable' development of all the member countries; in the case of the new UDEAC Treaty, mention is even made of sectoral industrial programmes, although the instrument is not precisely defined and has not been really brought into operation. This latter step has, however, been taken in the Andean Group, which in this connexion is the exception to the rule.

The reasons why the preferential systems stipulated in some integration formulas have been ineffectual have often been analysed. In brief, most of them have been of a defensive character (like the East African Community's transfer tax), or have been confined to granting certain tariff preferences which, of course, have not been sufficient to offset the advantages of siting in the more dynamic countries. Whenever treaties have made express mention of industrial policies aiming at balanced development, the common practice has been to deliver them over to an almost impossible case-by-case negotiation (as was done with the Régime for Central American Integration Industries or the allocation of industries in the East African Community or in UDEAC), or to deal with the subject in such general terms that the whole thing has stopped at declarations of no practical importance.

The system of the Andean Group, which, as said above, has shown itself appropriate up to now for the purposes in question, consists in programming of communal enterprise by industrial sectors, and its essence is the determination of sitings which will serve as an authentic factor in the promotion of investment. In this sense, despite the difficulties and conflicts that have had to be faced in the preparation and negotiation of the programmes, it would seem to be a valid instrument as an element of partial compensation for the differences in national capacities to promote the development of integration industries. The full implementation of the programmes will have to be awaited before a more definite judgement on the efficacy of the mechanism can be formulated, but the partial successes achieved so far, and above all the expectations generated, warrant the assertion that it has managed largely to prevent the dissatisfaction and the apprehensions on which integration efforts have hitherto run aground after their first two or three years of existence. This evaluation, which takes into account the conditions of heterogeneity proper to the Andean Group, could not be extended to any or every integration system. For example, such extreme situations of heterogeneity can be imagined as would make it impossible for programming to work at all. The subject will be dealt with in greater detail in a later section of the present article.

4. Other differences in economic structure

The reference made above to the differences in the scope and functions of State enterprises brought to the fore a kind of problem which derives from dissimilarities in economic and social structure between the countries seeking integration. These differences affect the motivation for integration, or the applicability and efficacy of its instruments.

Examination of the integration groupings of the developing world reveals several outstanding illustrations of problems of this kind. For example, in the Central American
Common Market the difference between the economic and social structure of Costa Rica and that of the other member countries seems, in my opinion, to account for the difficulties which have been encountered in harmonizing their policies (exchange policy, for example). In ALALC's case, one cannot but see how far the possibilities of harmonizing policies are limited by the existence of marked differences in certain characteristics of the member countries' economies, such as rates of inflation, for example, which are so persistent in certain Latin American countries and reflect realities of their economic and social structure. Again, differences of this kind, albeit less marked, appear to have contributed to some extent to the problems of the East African Community.

Other examples could be cited of structural differences which in the gestation of these movements restrict integration objectives and subsequently hamper the advance of the process. It is important to distinguish them from other differences in economic policy which are normal among countries seeking integration, and whose gradual reconciliation is the essence of integration policies. When there are several possible economic policy options for achieving ends that the States cannot forego, such as economic development or political stability, and of these options one or more offer better prospects for integration, a terrain has been reached in which efforts at reconciliation, harmonization and even unification of policies can bear fruit.

Normally, a measure of freedom of choice exists in respect of the economic policies formulated to strengthen or counteract certain features of the economic structure; for example, to promote export diversification it is possible to choose between uniformly low tariffs and subsidies, and one or the other, according to circumstances, may be more favourable for reconciling policies with a view to integration. This freedom of choice is lacking in the case of policies determined by basic features of the economic structure which it is not intended to alter, or which, if they are unfavourable, can be changed only by slow degrees. Thus, countries with more highly developed social and economic structures will be opposed to a reconciliation of policies which in one way or another may cause in their case regressive income redistribution; and, to cite another example, it would be very difficult for countries with chronic inflation to allow others to impose upon them a harmonization of exchange policy based on fixed rates of exchange. Numbers of similar examples could be adduced which arise out of situations so deep-rooted that over the short and medium term they seem to leave no alternative open. So long as these features remain unchanged, the integration movement—which may be a way of changing them gradually—will have to adapt its instruments to them, or will find itself compelled to limit its objectives. Later on the structural differences that appear to be most closely linked to integration problems will be reviewed.

Hitherto the aim pursued has been to classify the problems noted in the integration groupings of developing countries according to their nature, with a view to arriving subsequently at some conclusions of a fairly general character. To this latter purpose the following section will be devoted, with due regard to the fact that the analysis is based on certain hypotheses as to collective motivations which obviously imply a simplification of the real situations.

21 For a more systematic discussion of the subject, see Germánico Salgado, "Integración, conciliación de políticas y diferencias de estructura económica", in Instituto para la Integración de América Latina, Integración Económica, Year 2, N° 3, Buenos Aires (Argentina), May 1977.
In this section an attempt will be made to assemble the conclusions of the foregoing analysis in a tentative theoretical system whereby attention can be focused on some of the basic variables of the integration process among developing countries. Inevitably, political and sociological concepts will be involved in respect of which the author has no professional qualifications. His excuse for venturing into their domain is that in face of the problems of integration and its repeated failures a broad view of social action is more important than the rigour of exclusively economic analysis. The present paper will have fulfilled its purpose if it serves to point out elements that have been somewhat neglected in the analysis of integration and if it thereby makes for greater realism in the policies which, with integration objectives in view, the developing countries concert.

Initially, a brief description will be given of those motivations which, to judge from experience, have done most to induce developing countries to decide on integrating their economies.

**Industrial development and technological progress.** The objective pursued is not a mere quantitative change in industrialization in general, but a different structure of industrial activity, which, in addition to its other economic effects, may stimulate technological progress and more profoundly influence economic activity as a whole. For the sake of brevity, in the text this motivation will be designated that of 'change in industrial structure'.

**Expansion of trade and more efficient utilization of existing production capacity.** This is the motivation on which the analysis of integration benefits is usually based. The expansion of the market by the liberalization of trade permits of specialization and the more efficient use of installed capacity. It also furthers industrialization objectives, in so far as trade induces the installation of additional capacity and enables the industrial structure to evolve towards a higher degree of specialization.

**Increase in capacity to negotiate with third parties. Improvement of inter-State political relationships.** These last two motivations play a very important part in the gestation of integration movements, and neglect of the second in particular may result in the stagnation or disruption of programmes. Nevertheless, these two 'political' incentives carry much less weight than the first two, which we will call 'economic', when it comes to establishing the objectives and patterns of integration. The analysis in this section will pivot upon these economic motivations, although later we shall briefly revert to the influence of political motivations, or of their absence.

A propos of these economic motivations a word of warning is due. They represent the immediate ends that economic integration may help to attain, but underlying them, obviously, is the aspiration towards economic and social progress, with a whole series of objectives such as the growth of the product, increased employment, the eradication of poverty and others. Strictly speaking, the preference for industrialization or for the expansion of trade implies a relationship between these phenomena and the overall development of society, which would appear to be the ultimate motivation of integration. For the purpose of analysing the objective and instruments of integration, however, it is desirable to concentrate on the goals which the latter, as an economic policy, can directly attain, and they are in the
last analysis those which correspond to the two economic motivations mentioned above.\textsuperscript{22}

The distinction between these two economic motivations signifies undoubtedly some simplification, since they could be seen as gradations in a continuous spectrum. It was thought preferable, however, to mark the differences between the aspiration which implies the evolutionary growth of an industrial base, and that which involves a switch-over from one industrial structure to another thanks to the broadening of the market. This is not only more in keeping with political perceptions of the industrialization phenomenon, but is also warranted by the possibility of discontinuities in the economic development process.

Of the two economic motivations in question, it is the one related to the expansion of trade that has, in the writer's opinion, most strongly influenced the integration movements concerted among industrialized countries, although that of industrial change is present too, since even in such economies there may be different degrees of industrialization and structures of greater or lesser efficiency, partly consequent upon the limitations of the national markets. At all events, it may safely be said that in the case of the industrial countries the expansion of trade is a stronger motivation than industrial change. In the terms we shall use throughout the rest of this paper, the first of these could be described as having, in such circumstances, greater 'intensity' than the second, and as holding, for that very reason, a higher 'rank' among the motives for integration.

Observation of what has happened in the integration groupings of the developing world indicates, in contrast, that ordinarily the industrial change motivation predominates, which is not surprising in view of the deficiencies and gaps in their industrial structure. Although both economic motivations are present and influence integration decisions, it is the second that prevails, and primarily accounts for their adoption; that is, it is of greater 'intensity' and higher 'rank' than the first. Nevertheless, in developing countries whose industrial structures are quite well-developed and efficient, at least in respect of certain branches of specialization—often because their national markets are large—, it may well happen that the expansion of trade takes precedence over industrial change as a motivation; this seems logical, given their circumstances, where integration with other developing countries is concerned.

Obviously, the intensity and ranking of the motivations will determine the objectives which each country hopes to attain through the integration process. If in each of the countries participating in the integration movement the intensity and rank of the motivations coincide, a similar coincidence may be expected in the objectives by which the process is inspired, in what is demanded of it, and, consequently, in the main aspects of its instrumental patterns.

But even if in the individual countries participating in an integration movement the motivation constituted by a change in industrial structure is of greater intensity than that represented by the expansion of trade, and accordingly the former ranks higher than the latter—which would be almost the norm among developing countries—, there is no reason to expect that the intensity and consequent ranking of motivations will be similar in all the member countries. They will be different if conditions differ from one country to another; and furthermore, they are exposed to modification in function of the relative position that each of them holds within the integration programme. This

\textsuperscript{22} For the sake of brevity, no attempt will be made here to elucidate the relations between integration and the development of activities other than industry, such as agriculture. Although this development is at least partly implicit in the phenomena to which the two economic motivations relate, the fact that it is not explicitly mentioned suggests the view that integration, as an economic policy, can more efficaciously serve the purposes of industrial development than those of other sectors of activity.
relative position may even alter the ranking of the motivations. This might happen, for example, in a country whose national market is much larger than that of another participant in the integration formula. The first of these countries may be strongly motivated by the change in industrial structure, and much more feebly by the expansion of trade; nevertheless, if it took the path of integration with the country whose market was smaller, the trade expansion motivation might prevail, because that would be the objective which the integration in question would enable it to attain. There would be no reason for this change in rank to occur in the other country. In those circumstances, it is logical that the two countries should differ with respect to what each demands from the process and to the instruments they are prepared to use, a discrepancy which, as has been shown, is the major source of conflicts in the integration movements of the developing world.

Accordingly, it is worth while to look into the factors that influence the intensity and rank of the motivations of countries seeking integration. The analysis would become too complex unless hypotheses were established that take for granted certain variables conditioning social action from outside, or stemming from internal changes in the power structure with their corresponding ideological connotations. For example, a reduction of the degree of autonomy tolerated by the international power centres will almost certainly affect the political expression of the incentives to integration; this may also happen if changes in the dominant groups in a society involve a modification of the prevailing ideology, in a direction either more or less favourable to integration than the preceding situation. Thus, the tide of free-trade policy which has begun to sweep through Latin America in the past few years has undoubtedly helped to weaken the intensity of such motivations, and the above-mentioned problems of the Andean Group with Chile are a valid illustration of this phenomenon. Similar effects would be produced by the spread of the power of the transnational corporations, in so far as they use developing economies as subsidiary centres for exports to international markets, which is already happening in the more advanced countries of the Third World.

If, for the purposes of the analysis, these variables are taken to remain unchanged, and if, moreover, we confine ourselves to the most general determinants of these preferences for industrialization or for the expansion of trade, shelving other circumstances of economic structure which are proper to each individual country, it might be asserted that the intensity and rank of the motivations of countries seeking integration are influenced by the following factors:

(i) the degree of industrial development that a country has attained, and the relation existing between its economic dimensions and the market size that would be necessary in order to achieve the desired change in the industrial structure;

(ii) the economic dimensions of the integration area in relation to the size which would be necessary in order to bring about that desired change in the industrial structure;

(iii) the country's relative position, as regards the degree of industrial development attained, vis-à-vis other countries participating in the integration movement.

The writer is aware of the limitations of the concepts 'degree of industrial development' and 'economic dimensions'. What is meant by the latter is the capacity as a market of a national economy, or of the integration area, as the case may be. Implicit in this is an idea of scale projected into the macro-economic field which would not, of course, be single or invariable, but would rather indicate a range of dimensions tending to shift, with the evolution of technology, towards steadily increasing magnitudes. For the time being, it is not the purpose of the present paper to examine the difficulties of measuring the said dimension. Simply to provide, as a basis, some indicator of the
dimensions of the national economies, the annex presents, as already mentioned, data on the total gross national product and the population of the countries participating in the various integration formulas of the developing world.

Still more complex is the concept of the degree of industrial development. There is no need here to pronounce in favour of any one of the compound indexes which have been proposed for its measurement. The important point is that the concept comprises, in addition to the element of efficiency, an assessment of the greater or lesser degree of interdependence of industrial activities. In this context, key importance would attach to the development of activities producing intermediate and capital goods. Furthermore, implicit in the concept of the degree of industrial development attained by a country is a judgement of its capacity to take advantage of the industrial opportunities opened up to it by integration, for the said concept also represents the aptitude that a society has acquired for promoting and developing the new integration industries—an aptitude which we formerly termed capacity or potentiality for industrial development. With these points clarified, the time is now ripe to analyse the influence of the elements in question on the two economic motivations for integration.

The first of them, consisting in the degree of industrial development attained by a country and the existing relationship between its economic dimensions and the market size considered necessary for industrial change (which for brevity's sake we shall henceforward describe as 'required'),

exerts a direct and powerful influence on motivations. The higher the degree of industrial development a country has achieved and the closer its economic dimensions to the 'required' market size, the less will be the intensity of the two motivations.

Nevertheless, these factors would affect the industrial change motivation more profoundly than that of the expansion of trade, since there is always the possibility that specialization may bring trade gains. Conversely, the lower a country's degree of industrial development and the farther its economic dimensions from the 'required' market size, the greater will be the intensity of the two motivations, especially of that relating to industrial change. For the same reason, in the ranking of the motivations appreciable differences may be expected between the two, with some countries giving more relative importance to the expansion of trade and others to industrial change.

The second element relates to the effect of the size of the integration area on motivations. A large integration area, with dimensions equalling or exceeding the size 'required' by the most industrially developed of the countries seeking integration, will be favourable to the intensity of both motivations in all participants, but particularly to that of the industrial change incentive. An integration area of less than the size 'required' by one or more of the participating countries would weaken the intensity of both motivations, at least in the more industrially developed countries, and in particular would lessen that of industrial change in relation to that of trade expansion. In contrast, a large integration area would attenuate the difference in motivations attributable to the degree of industrial development attained, while a small integration area would aggravate those differences in intensity and rank.

Clearly, the evaluation of an integration area as large or small depends first and foremost upon its relation to the size 'required' by the most industrially advanced of the participating countries. In this sense, and with respect to its effect on motivations, the size of the integration area is a relative concept, so that it is possible to conceive of integration areas which can be described as small in function of a particular experience and which, nevertheless, are sufficient, that

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23 Even though it may be different in each case according to the degree of development attained and other factors.
is, equal or superior in size to the dimensions ‘required’ by any of the participants. We said that this relativity exists, in the first place, because an integration area that is small in absolute terms —i.e., measured by the ideal margins of size demanded by technical progress— will tend to become insufficient more quickly if really good use is made of integration opportunities. But as long as this does not happen, as long as the size of the area remains adequate, there will be no reason for it to inhibit the industrial change motivation.

The third element, which has to do with each country’s relative position within the integration area, that is, *vis-à-vis* the other members of the movement, opens the subject that we believe to be of fundamental importance: that of the differences in industrial development between the countries members of an integration area, i.e., the homogeneity or heterogeneity of this characteristic of their economic structure.

Part of the consequences of this heterogeneity (or homogeneity) can be deduced from the analysis made, in the context of heterogeneity, of the effects produced on motivations by the degree of industrial development that each country has attained and the market size ‘required’ for industrial change. In this case, the effect of heterogeneity is determined by comparing the countries’ individual situations, without reference to their interrelationships.

But just as important as this first effect of heterogeneity are the repercussions of each country’s relative position within the integration programme: that is, the changes that these same motivations undergo as a result of each country’s individual situation, once its relation to the situations of the other countries is established. In this case it is no longer a country’s own degree of industrial development that is the determining factor but that of the rest, inasmuch as it may signify a difference in the capacity to benefit by integration, and relatively advantageous or disadvantageous positions which undoubtedly affect motivations. It is certainly reasonable to suppose that countries with a higher degree of industrialization are in a more favourable position than the less industrialized to turn to good account the opportunities afforded by integration, both for industrialization and for the expansion of trade. They are so not only by virtue of their productive base, but on account of their capacity to outstrip the less advanced countries in the development of the new integration industries. These are real situations of superiority or inferiority in relation to the preference for industrialization, that in the sphere of integration policy are frequently associated with collective feelings of relative ‘superiority’ or ‘inferiority’ which, of course, have powerful repercussions on the motivations.

Because of these absolute or relative effects, the greater the heterogeneity, the more marked will be, in general, the differences in the intensity and ranking of the motivations. It is possible to imagine situations, however, in which the effect of the relative positions tends to counteract the differences in motivations stemming from the other factors. This may happen when awareness of their relative position has so acute an inhibitive effect on the industrial change motivation in the weaker countries that it brings them closer to the stronger in respect of the intensity and ranking of motivations. In that case, however, in view of the insufficient intensity of the motivations, the conditions for integration would not exist, a circumstance that would indicate an extreme situation.

Consequently, it may be said that the heterogeneity of countries as regards their degree of industrial development (and their capacity to change their industrial structure) is reflected in differences in the intensity and ranking of motivations, and that these, except in extreme cases, are accentuated when awareness of the relative position within the integration area comes into play. In contrast, homogeneity in respect of these characteristics would have the opposite effect, and that would imply greater coin-
cidence in the choice of integration objectives and of the instrumental patterns of the process.

An analysis of the whole varied range of possible combinations, taking into account the different options consistent with the three concepts described, would be not only tiresome but somewhat meaningless. Suffice it, therefore, to assemble its conclusions in a simple presentation of the circumstances considered most propitious for economic integration from the standpoint of the coherence of the participants’ motivations. These favourable conditions would occur in the following cases:

(i) the lower the degree of industrial development attained by the participating countries and the farther their economic dimensions from the size ‘required’ for a change in the industrial structure;

(ii) the larger the economic dimensions of the integration area and the higher the degree in which it approaches or exceeds the economic size ‘required’ by all the participants;

(iii) the more homogeneous (or the less heterogeneous) the participants as regards the degree of industrial development attained and their economic dimensions.

It might be alleged that the first condition contradicts the second. This is not necessarily so. Even if the countries are of limited economic size, the integration area may be large enough if the grouping comprises a considerable number of countries. This may involve problems of another kind (of management, for example), but not those of motivation. As already pointed out, the condition may even be fulfilled, at least temporarily, even if the integration area is small in absolute terms, provided that it is sufficient for the industrially most developed of the countries seeking integration.

With these conclusions in mind, the next question to be asked is what would be the conditions least favourable to economic integration. Conversely, they would exist in the following circumstances:

(i) the higher the degree of industrial development attained by the participating countries and the closer their economic dimensions to the size ‘required’ for a change in the industrial structure;

(ii) the smaller the economic dimensions of the integration area and the farther it is from the economic size ‘required’ by the participants;

(iii) the more heterogeneous the participants as regards the degree of industrial development attained and their economic dimensions.

The real phenomena of economic integration lie between these extremes. The next step is to identify a few type cases among all the possible alternatives.

In the optimum situation, which we will call case A, the participants would be at a low stage of industrial development and their economies would be of small size, so that the degree of intensity of both the economic motivations for integration would be high, but especially so in the case of that relating to industrial change. The integration area being large, this intensity would be still further accentuated, and the relative homogeneity in the industrial development of the countries concerned would facilitate coincidence of the objectives of the integration effort and therefore of its instrumental patterns. Market integration could be in depth, that is, ambitious with regard to the unification of the economic space, and broad in respect of the activities comprised in the process. The relative homogeneity of the countries would create real and psychological conditions favourable to the operation of automatic trade liberalization mechanisms (unless the countries concerned were socialist) as a means of allocating resources in the new economic space. This would simplify the instruments of integration and its institutional organization, which could dispense with communal planning organs, necessary mainly to ward off conflicts deriving from the distribution of the costs and benefits of integration.

Nevertheless, the ambitious integration objectives which the grouping would set up
in this case would call for harmonization or unification of policy on several fronts, implying complex action and communal technical and administrative institutions, as well as organs empowered to settle controversies.

Thus outlined, the conditions in case A—the optimum situation—recall the hypotheses on which the classic model of a customs union is based, and the conclusions as to the media and instruments of integration are therefore identical in the two cases.

If in this ideal type case, characterized by the most favourable conditions, each of those conditions in turn is replaced by its opposite, i.e., the condition that is most unfavourable, several typical situations take shape, one or two of the most relevant of which will next be examined.

Case B would result from replacing the first condition in the optimum case by its contrary, and, therefore, would represent an integration programme characterized by: (i) member countries with a relatively high degree of industrial development and economic dimensions close to the ‘required’ size; (ii) a large integration area, bigger than the market size ‘required’ by any of the participants for industrial change; and (iii) relative homogeneity of the member countries in their degree of industrial development and their economic size. The intensity of the motivations would be less than in case A, and this reduction of intensity would be particularly marked in the motivation relating to a change in the industrial structure, since even without integration the countries concerned would be very near to attaining the market size they would need for such development. The inhibitive effect would also extend to the trade expansion motivation, but it would probably be less, since the expansion of the market would make it possible to take full advantage of installed capacity and gradually consolidate lines of specialization.

Given the favourable conditions as regards the size of the integration area and the homogeneity of the member countries, integration is possible and viable in case B. The motivations for market integration in depth and breadth would be lacking, but what could be envisaged would be selective action to concentrate effort in specific activities in which requirements of scale were greater. In these it would be possible to arrive at partial integration programmes which, with this limitation, might well be carried out in depth. With regard to the expansion of trade, the homogeneity of the countries in particular would be favourable to broad-based integration, although since the intensity of this motivation would in any event be slight, what is most likely is that, in default of other cohesive forces—of a political nature, for example—this integration would tend on the whole to be superficial. To sum up, in this case B a broad though superficial form of integration could be expected, except in certain economic activities, industrial or otherwise, where in order to profit by advantages of scale the cooperation effort might gain in depth.

As regards integration policies and institutions, this and the preceding case have in common the possibility of using relatively simple trade liberalization mechanisms. The looser integration which is the objective in case B could be achieved with fewer policy harmonization requisites, than in case A, and the organization could be simpler, except perhaps in the institutional mechanisms that might ultimately be needed for administration of the sectors chosen for integration in greater depth.

None of the developing countries’ integration groupings would appear to approximate to case B if all their members are taken into account. If, however, we were to consider only the three largest ALALC countries—Argentina, Brazil and Mexico—, which because of the characteristics of the ALALC formula can establish interrelationships virtually specific to themselves, we should meet with a situation not unlike case B. Roughly speaking, we should see that market integration is broad in scope, but
superficial, since liberalization is reduced to a generally low tariff preference. The complementarity agreements, which in practice link up only these three countries, constitute selective integration efforts in somewhat greater depth in certain industrial activities, more or less in line with what was indicated in this connexion in case B. It is interesting to note that despite the theoretical potentialities of integration among the three countries in question, none of them has proposed going any farther, a fact which is symptomatic of the weakness of their motivations.

Case C would result from replacing the large integration area in case A by a small one, falling short of the size 'required' by the participants for a change in their industrial structure. The other two conditions would remain the same: the low degree of industrial development and narrow economic dimensions of the member countries, together with homogeneity among them in respect of these characteristics.

Given the characteristics of the case as set forth, the size of the integration area would be smaller than that 'required' by each and all of the participants, since in this sense they would be homogeneous. Thus, the 'required' dimensions should be understood in relation to the industrial change objectives proper to those countries, which would not necessarily propose as their target the development of an integrated industry producing intermediate and capital goods. Strictly speaking, to constitute case C it would be enough for the size of the area to be insufficient for attainment of the 'higher' stages that all the participants would be able and wishful to attain, even if these were less ambitious than the development of an advanced industrial sector.

The foregoing requisites are not of course met just by any industrial progress whatsoever. If the countries submit to the demands of integration, they do so because it may enable them to achieve what they consider a substantial advance, as, for example, the move from an industrialization process covering only a limited range of current consumer goods to an industrial structure which comprises the manufacture of durable consumer goods, some intermediate products and simple capital goods, such as machine-tools. Implicit in the reference to 'higher stages', therefore, is the idea of discontinuity in the development process, even though it may be modest in its scope.

The case being thus defined, if the integration area did not even reach the dimensions required for the desired 'stage' of industrialization, the high intensity and coherence of motivations that the characteristics of the countries might lead one to expect would be partly offset by the smallness of the area, which would inhibit, above all, the industrial change motivation. The result would then be an integration that was superficial in its effects, even though liberalization might be complete. The trade expansion motivation would probably be less affected by the modest size of the integration area, and, consequently, there would be a tendency to attach more importance to the mechanisms that might facilitate the growth of trade than to those through which the creation of the new integration industry could be encouraged. Integration policies would perhaps be more complex than in case B and more similar to those of case A, given the full opening-up of markets which would be necessary if the limited effects of such an integration programme were to be turned to the best possible account. This would imply harmonization of policies and, therefore, a relatively well-developed institutional organization. In view of the homogeneity of the countries, however, liberalization might function effectively through automatic opening mechanisms which would minimize the need for communal bodies.

The fragility of an integration programme implemented in such conditions stems precisely from the contrast between the requirements in respect of the opening-up of markets, a process always liable to breed conflict, and the limited effects which can be expected from it as regards industrial devel-
opment. It is not very likely that the movement will be able to give rise to a stable integrated society when, in face of the risk of conflict, no real possibility of approximating to the desired industrial development exists as a counterpart.

The situation would be different in an integration programme whose participants, as in the preceding case, were only in the early stages of industrial development, small in their economic size and homogeneous in these characteristics, but which had at their disposal an integration area of the dimensions 'required' for the attainment of the new 'stage' of industrialization, in the sense indicated above. This would be a situation assimilable to that of case A, more favourable to integration with all its functional consequences. One reservation must be made, however. As a real advance into this stage was achieved, even if only in part, the size of the integration area might become a limiting factor and the conditions of the integration movement might approximate more closely to those of case C.

This collision with the frontiers of the integration area might be theoretically postulated for any integration movement as an event that sooner or later will come to pass. In practice, given the time required for such integration as will make it possible to pursue the ambitious objective of laying the foundations of a modern industrial sector, with all its wealth of interdependent relationships and technological stimuli, the limiting effect would be valid solely for groupings whose integration area allowed them to reach only the relatively modest stages to which reference was made above. If such groupings were successful, they would have to enlarge the integration area by admitting new members or through fusion with other integration programmes, in order to pave the way for new and stable forms of integrated societies.

Several of the integration groupings in the developing world are operating in integration areas which can be classed as small by all criteria. While it is very risky to hazard opinions on this subject, for illustrative purposes it might be said that two of them, the Central African Customs and Economic Union (UDEAC) and CARICOM are similar to case C as regards the size of the integration area, although strictly speaking they could not be fully likened to it because of the relatively marked heterogeneity of their members. This, of course, would not prevent them from feeling the inhibitive effect on motivations produced by a small integration area. Two other groupings, the Central American Common Market and the East African Community, are probably among those whose area is 'sufficient' as the setting for an integration effort with all its motivations, but they are exposed, as industrial development opportunities are exploited, to the possibility of needing to enlarge the area in a fairly short space of time. Nor are they strictly assimilable to case C, because of their internal heterogeneity, but they do constitute an acceptable illustration of that particular situation as far as the size of the integration area is concerned.

Case D is undoubtedly the most interesting for the purposes of analysing the real circumstances of many processes of integration among developing countries. It is characterized by the introduction of the element of heterogeneity among the member countries, while the other conditions, which are favourable, remain unchanged. That is, case D will cover the possibilities of integration among heterogeneous countries with a relatively low degree of industrial development and of relatively small size, and constituting in the aggregate a large integration area, equalling or exceeding the 'required' dimensions. Except for the heterogeneity factor, the conditions would be favourable for broad-based integration in depth.

In this set-up we shall see how striking is the effect of heterogeneity in the degree of industrial development achieved. All the countries that in this respect are in an inferior position in relation to one or more members of the programme will be unwilling to move towards broad-based integration
in depth with a view to attaining either of the two objectives —industrial development or trade expansion—, at least in their relations with the larger countries. Ambivalence would undoubtedly exist: each country would be prepared for integration of this kind with the less developed countries but not with the larger ones. Yet unless integration were articulated by means of a network of bilateral treatments, which would certainly be possible but very difficult, the lack of coherence in motivations could have the general effect of leading, in relation to both objectives, to superficial forms of integration, on the whole restricted in their scope. This effect might be still more marked with respect to the expansion of trade, but the industrial development objective would suffer too.

To give an idea of the conflictive potentialities inherent in heterogeneity, it is useful to point out the effects of this divergence on instrumental options. While the larger and industrially more developed countries will prefer the distribution of activities to be left to the market mechanism, and will want the least possible institutional interference with that mechanism, the weaker countries will naturally take up the opposite position, advocating deliberate distribution of activities and maximum institutional interference in the market. There can be no way out of the conflict, in default of the solutions to which we shall shortly refer, other than recourse to a superficial or loose form of integration, either by the express intention of the treaties or by the tacit method of non-implementation, not to mention the possibilities of disruption.

In conclusion, even though all the other circumstances may be favourable, including political motivation and bargaining capacity, the mere existence of this heterogeneity among the countries will mean that the integration patterns adopted are superficial and loose. But in this instance, in contradistinction to cases B and C, it is possible to cancel out or at least to attenuate the effects of heterogeneity by introducing elements to offset the relative weakness of the smaller countries — namely, policy instruments, to which we shall be referring presently. For the moment it is of interest to point out that if this compensation is satisfactorily accorded and is acceptable to all, integration may be thoroughgoing and extensive in its objectives, especially as regards the change in industrial structure, for which favourable circumstances would be ensured and greater intensity of motivations would exist. The biggest difficulty lies in devising an effective compensation mechanism and getting the parties to accept it. This acceptance is undoubtedly influenced by the intensity of the economic motivations of the participants, but the importance of political considerations or motivations should not be overlooked.

In describing the integration movements of the developing world mention has already been made of the policies whereby it has been sought to compensate the situation of the weaker countries. Generally speaking, the tendency has been to apply a series of preferential tariff or tax treatments, and to grant advantages in respect of services, income redistribution and flows of capital. All these methods have failed to fulfill their function as compensatory mechanisms, and the conflicts have been maintained or renewed. The only policy that could have been an efficacious means of attenuating the effect of heterogeneity on the central motivation for integration —industrial change— would be direct distribution of the new integration industries among the member countries, keeping their allocation apart from the operation of the market. Almost of the integration treaties have recognized this, but only in the Andean Group, with its industrial programming, has it been possible to implement such a policy systematically and effectively enough, given the unwillingness of the more powerful countries to accept limitations of this kind.

Of course, the mere existence of a compensatory mechanism like that described, which implies a deliberate allocation
of resources and, in the last analysis, the operation of a communal planning organ, introduces one more factor of complexity into integration policy and institutions, even if it is much simpler than the industrial programming of the Andean Group. At all events, it is necessary not only to use the whole arsenal of instruments for the opening-up of markets and the harmonization of policies which integration in depth requires, but also to establish planning systems, which may vary in breadth of scope and fullness of detail, but which have to meet inevitably exigent technical and political requisites.

If the concepts are used with a certain amount of latitude, there are several integration movements in the developing world which might be considered similar to case D. One has already been cited —the Andean Group—and others that could be added are the Central American Common Market and the East African Community, as long as the area remains 'sufficient', as well as the Economic Community of West African States (ECOWAS). As already stated, out of all these only one seems to have found a mechanism to counterbalance heterogeneity which up to now appears to be efficacious. One of the reasons why the East African Community is moribund lies in its failure to put this mechanism into practice. It is to be hoped that the other two will hit upon methods of compensation appropriate to their own circumstances.

To finish with this subject and, in particular, with the analysis of case D, it seems useful to point out that it will not always be possible to find a compensatory mechanism which is functional and effective, and, therefore, satisfactory to the smaller countries. If the differences between the member countries of an integration programme are very great, not even a communal programming mechanism of broad scope will be able in all cases to ensure a satisfactory distribution of activities, because, inter alia, many of the opportunities that integration would afford for the smaller countries will have been already snapped up by the larger ones, thanks to their degree of development itself. A situation like this no longer strictly corresponds to case D, in which it is assumed that the countries are heterogeneous but relatively small.

If there were great differences in the degree of development and in the size of the countries, that is, if one more condition than in case D were altered, we might speak of a case E, which would exclude by definition the possibility of establishing effective and satisfactory compensation mechanisms. The result would simply be that the requirements for viable integration were absent. If this position were reached for political reasons, the most that could be hoped for would be a superficial and restricted linkage, more or less on the same lines as in case D, without the intervention of programming.

It is interesting to note that if the inter-country differences in respect of industrial development and market size reach extremes, the real and psychological effect may eventually cut off the weaker countries entirely from all possibility of availing themselves of integration to change their industrial structure. In such circumstances, not only is integration limited in its scope, but it becomes unacceptable to these latter countries and, therefore, completely non-viable. This case E, in which conditions of extreme divergence occur, recalls the classical model of world market integration through free trade, and there is nothing surprising in its not being regarded as a valid option for developing countries.

Other cases might be analysed, in which, as in case E, more than one of the favourable conditions are simultaneously reversed. The consequence is that market integration is made increasingly difficult. For the purposes of the present paper, however, the cases examined will suffice.

To sum up, it may be affirmed that only in two of these cases, A and D, is an integration programme viable which would be at once profound and broad in relation to
its two economic objectives, in particular that of industrial development. In case D, if the process is to have these characteristics, a mechanism to offset the effects of heterogeneity would be required. Without it, this case too would be unfavourable to such integration.

All other possible combinations, inasmuch as they eliminate more than one of the favourable conditions, culminate, of course, in situations even less propitious for integration, although that does not mean that they preclude attempts at co-operation and even, in some circumstances, at integration, if this is confined to fragmentary undertakings of a superficial character. Unquestionably, however, authentic economic integration is not viable for any and every grouping of countries, and its characteristics and patterns cannot be identical in all circumstances.

A useful point to note is that, as in case D, the unfavourable situations are not always irremediable, and if the motivations for integration persist, it is possible to suppose that the solutions found may serve as intermediate stages in a gradual approach towards more profound and broader forms of integration. For example, if the limiting factor is the size of the integration area—which is of particular importance for the industrial development objective—, this limitation can always be overcome by incorporating new members or through fusion with other integration movements.\(^2\) If the obstacle is heterogeneity, and it has not been possible to mitigate the effects by means of compensatory treatment, a more homogeneous ambit may feasibly be chosen in order to move towards broader integration in greater depth, as has happened in the case of the Andean Group within ALALC. Integration in this more homogeneous, albeit more restricted, sphere of action can be viewed in this instance as an intermediate stage on the way to fulfilment of the original intention, which will probably become possible in the future because heterogeneity has been reduced by virtue of this intermediate integration. In short, if the necessary motivations exist, the obstacles created by the factual circumstances in which integration has to work are milestones marking the successive stages on a road along which it is feasible to journey gradually towards closer and more satisfactory relationships.

The only factors that cannot be modified by such means are the features of a country's economic structure which influence the intensity of its motivations. In the case of countries with a relatively high degree of industrial development and dimensions close to those 'required', conditions are not favourable for comprehensive integration in depth. Only the weight carried by motivations of a different kind, political in the broadest sense of the word, such as those emanating from the desire to increase bargaining capacity or meet geopolitical needs, could induce in such countries an attitude open to ambitious integration agreements, and even then it is doubtful whether results will match intentions. There is no good reason to suppose, however, that this special situation of the bigger countries may not alter in the course of time. The probable enlargement of the size which we have called 'required', in consequence of technological progress in a world which demands steadily increasing scales of activity, may in the future bring about changes in the intensity of motivations even in the larger countries: a fact which must be taken into account in contemplating this succession of possible stages in an integration effort which aims at climbing progressively higher within a continuing process.

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\(^2\) An increase in the number of members cannot but carry certain implications for the functionality of the process. Basically, it makes negotiations a more arduous task and may considerably complicate administration. However, no general rule can be laid down in this respect.
V

Other differences in economic structure and their implications for integration

In the preceding section consideration was given to only one of the differences of structure which are significant for economic integration: the degree of industrial development attained. It is possibly the most important because it lies at the very root of the decision to seek integration, but it is not the only one, as we had occasion to note in describing the problems of the developing countries' integration groupings. A number of other features of the evolution of a national economy may give rise to other differences in structure which also influence integration, and which are enumerated below in a list which makes no claim to be exhaustive.25

(a) Differences in the structure of foreign trade originating in:
   (i) the structure of traditional exports and the nature of their markets;
   (ii) the degree of diversification of exports, especially in respect of industrial products;
   (iii) the degree of dependence upon imports for supplies of foodstuffs and intermediate products;
(b) Differences in direct State participation in economic production and distribution;
(c) Differences in social structure and social policies, especially in relation to the system of ownership of the factors of production, management of enterprises and income distribution;
(d) Differences in rates of inflation

(when the processes concerned are deep-rooted and the disparities are considerable).

Even though the heterogeneity deriving from these characteristics does not affect the decision in favour of integration in the same way as that discussed in the preceding section, it does influence the possibilities of harmonizing or reconciling policies which, from the instrumental standpoint, serve to determine the new economic space. In this connexion, its importance, in the long run, equals or exceeds that of the opening-up of the space in question through the liberalization of trade, which, in any event, also constitutes a type of harmonization of policies.

As was previously noted, the possibilities of reconciliation are limited, at least temporarily, by these differences in structure which cannot be disregarded without casting doubt on the whole feasibility of the process. (Several relevant examples were cited earlier which need not be repeated here.) When this is the case, integration must seek new instruments, i.e., to use the terminology of the preceding section, compensation mechanisms fitted to overcome the effects of this form of heterogeneity. A good example of such situations is that resulting from the activities of State production or marketing agencies, which often bypass, for what may be perfectly legitimate reasons, cost and price considerations, and, to that extent, invalidate the operation of the usual trade liberalization mechanisms. The way to harmonization would not consist, in normal circumstances, in abolishing State trading agencies or relegating them to a marginal position, because this would mean subordinating the decision to follow a political model to integration requirements, a demand that cannot ordinarily be made. The only possibility of resolving such a

25The list does not include differences in treatment of foreign investment—an extremely important matter in any integration movement—because, as a general rule, in the sector for which the process is of most interest, i.e., manufacturing industry, such treatment is not determined by structural features, and there is a possibility of choosing between options either more or less favourable to integration.
problem lies in attempting to harmonize State purchasing policies by means of a specific instrument, which would be a new item in the arsenal of integration policies. The East African Community formulated an agreement on this issue which could not afterwards be ratified. In default of this or some other mode of reconciliation of the relevant policies, in such a situation there is nothing to be done but tacitly to accept the fact that at least part of the trade concerned escapes the action of the liberalization mechanism.

Looked at in this light, economic integration among developing countries becomes a matter that calls for a new and imaginative outlook. In the first place, in specific groupings economic integration may not be viable, and the analysis should provide some basis for a realistic appraisal of the possibilities. Furthermore, there is room for many different patterns of integration, as regards both objectives and instruments, and the structural conditions of the grouping and of its member countries should serve as a guide for choosing the most appropriate of these. Admittedly, the decision to seek integration is primarily a political one, and what is known as the political will may propose much more than seems reasonably viable. But the experience of the developing world suggests that never so far has the political will managed to override the economic realities of the groupings, when they have not been taken into account from the outset in the integration formula.

VI

Intentions and realities: some conclusions respecting the errors in the conceptual basis of ALALC

The conclusions to which the analysis presented in the last three sections leads cannot be rigidly or indiscriminately applied to real integration phenomena in order to establish the patterns suited to them and issue a final pronouncement on their viability. They are judgements based on simplifications of the complex fact of integration, and their usefulness depends upon the discretion with which they are used as a method of analysis of specific situations; as a method, this has the virtue of highlighting the probable origin of some of the more serious problems to which the process may be exposed. The importance which may attach to such problems in each individual case, the complexity with which they are invested by the action of other variables not taken into account in the analysis, and the influence which may be exerted upon them by specific economic or political circumstances, are facts which can only be evaluated through observation of the characteristics of each integration programme.

Despite all these limitations, the method of analysis suggested serves to underline certain aspects usually neglected in integration studies. In the integration theory that falls within the framework of the classical theory of international trade, the emphasis has hitherto been placed on the analysis of trade benefits. The key questions in this connexion have centred upon the advantages or disadvantages of a spatially limited integration, whether in a context of free trade or of national protectionist policies. Formulated in static or comparatively static terms, they are divorced from attempts to analyse economic integration in the framework of a theory of economic development. Even in this case, integration has been viewed exclusively as a policy instrument which must contribute to the attainment of certain objectives —such as industrialization, increased efficiency in activities, power to negotiate with third parties—, and insufficient consideration has been given to the structure and characteristics of integration.
groupings, in so far as these phenomena affect their capacity to achieve such ends and to maintain a distribution of costs and benefits which will make for the stability of the integrated society.

It is of interest to note that some of these interpretations of the role of integration in the development of the poorer countries are in line with a conception of the international economy which, in contrast to classical theory, recognizes the determining function of differences in economic and political power, cases in point being the concept of centre-periphery relations formulated by CEPAL, or the theses of *l'échange inégal*. Nevertheless, for analytical purposes the subject of integration among developing countries has generally been tackled without reference to the possible implications of the existence of various forms of heterogeneity among the participants, a circumstance which is in practice, as has been shown, the source of some of the major integration problems. These disparities have been examined only as a phenomenon which calls for specific instruments—preferential treatments—, without full exploration of all their repercussions on the viability, objectives and patterns of integration.

It is the aim of the present paper to awaken interest in these questions and to do something towards beginning to fill these gaps in the conceptions of integration. It makes no claim to supersede the two analytical approaches mentioned above. Within their own hypotheses, they are valid formulations of partial aspects of the integration phenomenon. In these pages an attempt has been made to look at another of its facets, with the intention of finding a body of criteria in the light of which some of the questions of most importance for the construction of economic integration can be more realistically studied.

ALALC may afford an interesting illustration of the ideas expounded. In sections I and II of the present paper the conceptions that prevailed in the constitution of ALALC were described, together with their evolution from the original CEPAL theses. The time has now come to ask ourselves how far the objectives set up corresponded to what might reasonably be expected of this integration movement, and how far the pattern of the formula was appropriate to the characteristics of the grouping.

This is not the place to describe in details the ups and downs of ALALC's existence. In earlier pages brief reference was made to the problems that it has had to face. To avoid dwelling too long on the subject, we will assume that the basic features of its evolution are already familiar. Suffice it to point out here that after a short period of progress along the lines originally projected, it soon sank into almost total stagnation, which is now threatening to become actual regression. The establishment of the free-trade area has proved impracticable, and since the mid-1960s the negotiations have done nothing more than marginally enlarge the list of concessions. In practice, ALALC has never got beyond a preferential area, and that not even at a level which can be described as high. These preferences are still maintained, and trade has expanded in absolute figures, but since 1970 it has been obvious that the share of the regional market in total Latin American exports is declining, even in the case of manufactures, where its importance is still considerable, but is decreasing in relative terms.

Undeniably, the creation of ALALC was a decisive step in encouraging exports of manufactures from Latin America. In this sense, its economic potential did produce effects, despite the atrophy suffered by the liberalization programme. The expansion, nevertheless, was concentrated in a few countries, with a sequel of stresses and conflicts which has reduced it to the present stagnation. In 1974, in face of the impos-

\[26\text{CEPAL, "The economic and social development and external relations of Latin America" (E/CEPAL/1024/Rev. 1), 14 June 1977, p. 263.}\]
sibility of attaining the objectives of the original ALALC agreement, it was decided to begin negotiations with a view to restructuring the Treaty, but the divergence of positions was so marked, that it was impossible to reach a consensus. ALALC has continued to function in a languid fashion, still applying the system of concessions which had been arrived at when it came to a halt, but its deterioration will obviously be aggravated unless it manages to float itself fairly quickly off the reef.

How far do the characteristics and the internal structure of ALALC account for these vicissitudes? One of its features favourable to broad-based integration in depth as previously defined is the size of the integration area, which is much bigger than that of the other groupings of this kind in the developing world. On the other hand, in the light of the criteria laid down before, the marked heterogeneity of its member countries is prejudicial to ALALC. They were and are strongly differentiated, both in the degree of industrial development attained and in their economic size, as well as in other structural features. The data on the population and national product of the member countries listed in the annex illustrate the wide disparities between them — disparities which were bound to be reflected in a defensive attitude on the part of the medium-sized and small countries vis-à-vis the three larger ones. As already stated, the latter were the chief beneficiaries of the expansion of intra-regional exports, and almost the only countries capable of taking advantage of the complementarity agreements, which constituted the system set up for negotiating integration industry.

In 1969 a group of medium-sized and small ALALC countries established the Andean Group, as a subregional grouping. The basic motivation was to promote integration in greater depth without the dominant influence of the three larger countries: Brazil, Argentina and Mexico. The Cartagena Agreement, which brought the Andean Group into being, was declared compatible with ALALC, but undoubtedly, for the time being at least and while the Group was being consolidated, its existence helped to make the progress of the negotiations yet more difficult.

The distribution of costs and benefits is not the only sphere in which the heterogeneity of the member countries has affected ALALC. The very timidity of the objectives of the Treaty, which was carried so far as almost entirely to omit from it any provision on harmonization of policies, reflects the difficulty of uniting countries with such different characteristics in an integration movement. Not even the little that was included in respect of policies—the special provisions concerning agriculture, which were primarily a régime to protect domestic production—could be fully implemented, for lack of agreement on one of its basic mechanisms. It is easy to imagine the inhibitive effect that must certainly have been produced by differences such as those existing between rates of inflation, structure of foreign trade, etc. The joint result was that in the end even the apparently unambitious goals of the original Treaty could not be reached. ALALC is, therefore, a good example of an integration system whose fundamental problem —although not the only one—is the combination of pressures deriving from the heterogeneity of the member countries in size and structure.

In accordance with the scheme presented, and confining ourselves for the time being to the heterogeneity attributable to differences in degrees of industrial development and in economic size, marked contrasts were to be expected in the ALALC countries' motivations for integration. Given

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If the total gross national product is used as an indicator, we shall see that ALALC's was 260,000 million dollars, while that of the grouping next in size, the Arab Economic Unity Council, amounted to 78,000 million, according to figures for 1976 taken from World Bank Atlas: Population, Per Capita Product and Growth Rates.
their relative position within the grouping the larger and industrially more advanced countries were logically bound to be motivated much more by the expansion of trade than by a change in industrial structure, whereas, conversely, the smaller and industrially less developed members were necessarily prompted more strongly by the industrial change motivation and much less by that of trade expansion. This difference made itself apparent during the negotiations when the countries referred to what they were seeking through integration, and very strikingly in the propositions of the larger countries, particularly Brazil and Argentina.

Strictly speaking, this lack of coherence in the intensity and ranking of motivations ought to have been manifested in the selection of integration patterns and instrumental options. The larger countries followed their own logical line: hence their persistent advocacy of a competitive market, based on a full liberalization of trade which would allow the price mechanism free play, together with all the implications of those principles as regards the other characteristics of the formula. But matters were different with the medium-sized and small countries, which during the negotiations, as has been shown, accepted with apparent willingness not only the principle of free competition, but also the omission of any means of resorting to allocation of integration industries. They contented themselves with luke-warm insistence on preferential treatment, in any event very limited. This attitude changed some years later with experience of the process; but by that time it was impossible to go back on the principles accepted, and no real success was achieved in strengthening the preferential treatment. In fact, these topics were the core of the deliberations which were recently conducted in compliance with the Caracas Protocol, and in which, as has been pointed out, no consensus could be reached.

In addition to this basic problem deriving from heterogeneity, difficulties in harmonizing policies arose out of other differences in economic structure, of which an example has already been given. It should be noted, however, that the early interruption of the ALALC liberalization programme detracted from the urgency of the need to harmonize policies and kept below the surface the most serious problems of this kind, i.e., those relating to harmonization of exchange policies.

To sum up, ALALC was and is an integration grouping which, in simplified terms, displayed only one of the conditions we have called favourable to integration: the size of the new economic space. The marked differences between its member countries meant that their demands upon the process were different, and that same heterogeneity was bound to lead them sooner or later to prefer not only different but actually antagonistic instrumental patterns, as did indeed happen.

Clearly, a group with these characteristics, which had established as its ultimate objective a free-trade area, i.e., full liberalization for 'substantially all' trade,26 needed, if it was to advance without increasingly serious conflicts, a singularly efficacious system of differential or preferential treatment, or, in other words, what we have called an effective mechanism to compensate the heterogeneity among the member countries.

Experience shows that the mechanism chosen by ALALC was far from possessing such efficacy. It has been feeble in its effects in relation to the relatively less developed countries, and non-existent for the countries of medium size. Mention has already been made of the concentration of trade flows; the medium-sized and small countries have not been excluded from participating in them, but they have done so in conditions which both quantitatively and qualitatively —i.e., as regards categories of goods— are clearly inferior to those enjoyed by the three larger

26At least 80% of trade, according to the GATT interpretation at the time when ALALC was set up.
countries. This situation partly reflects the minimal degree in which they have benefited by the integration industries whose creation was the primary reason for their accession to ALALC.

There is no need to expatiate on the scant effect of the preferential system, which has been one of the touchstones of the analyses of the Association. The medium-sized countries —with insufficient markets— have not really received any kind of special treatment. The relatively less developed countries found themselves provided with a mechanism which could have been useful if they had possessed much greater bargaining capacity than they were really in a position to exercise; it was this that constituted, in point of fact, the logical flaw, the petitio principii, which invalidated the mechanism from its very foundations. Out of the long list of non-extensive special concessions, very few have been really put to use, and, worse still, those of any significance have been even fewer. In many cases, the concessions relate to products of little economic importance with a low level of value added. In others, a concession which might have been meaningful on account of the product concerned is confined to characteristics or qualities of that product which virtually annul it. Lastly, concessions are accorded to complex industrial products manufactured on a fair scale, but in some instances these are goods which in practice cannot be produced, and in others they are produced as isolated items, albeit the technical and economic characteristics of the activities in question call for the manufacture of ranges of products.

In short, the essential instrument of the preferential system —the only one which really existed, and which, as has now been shown, is constituted by the special list of non-extensive concessions— has been unable to fulfill its function efficiently. The other advantages, whose application in each specific case was left to the discretion of the parties, were never turned to account in practice.

Despite subsequent attempts at rectification, of which resolutions 74 and 101 are the outcome, the system has undergone no significant change, nor has it been possible to articulate the joint supporting action envisaged in resolution 101. In addition, since nothing was done to establish a more or less automatic mechanism to ensure implementation of the principle of reciprocity —the CEPAL proposition—, ALALC has lacked the ultimate stabilizing instrument which might have prevented the disequilibrium in the integration process from running to extremes.

This inefficacy of the compensation mechanism is almost exclusively due to the principles and conceptions by which its creation was governed. Where integration instruments are concerned, it is often the way they are put into practice that vitiate their function. That is not the case with the preferential treatment under discussion, whose weakness lies in the original ideas. What is more, the inefficiency of the compensation mechanism was latent from the very moment when the ‘competitiveness’ of the market was almost unconditionally accepted as the guiding principle for the whole functioning of the integration programme. The interpretation of this ‘competitiveness’ conducted, as has been shown, to denial of the possibility of restricting competition in certain ‘allocated’ activities. And, furthermore, it led to postulations which did not necessarily derive from the guiding principle, such as those of avoiding automatic mechanisms as far as possible, rejecting rules whereby the parties’ exercise of bargaining power could be in any way delimited to serve the joint interest, and reducing the communal organs’ capacity for control and initiative. This meant that preferential treatment, like the whole operation of the integration movement, was left subject to a continuous process of negotiation, in which, of course, the weaker parties were permanently at a disadvantage.

In CEPAL’s theses respecting differential treatment a distinction was drawn
between categories of goods and of countries. If that distinction had been accepted, there would have been at least a possibility of establishing from the outset some limitation of the parties' power of negotiation with respect to the way in which the market-opening mechanisms should be applied. Much the same thing would have been achieved if the idea—also one of CEPAL's—of including some automatic safeguard of reciprocity had been taken up. The discussion of the topic, conceptually dominated by the larger countries, left the preferential system stripped of all such elements, as alien and dysfunctional interpolations in a framework governed exclusively by the bargaining capacity of each of the parties.

This does not mean that if the said CEPAL proposals had found a place in the final formula, the differential treatment would have been efficacious. The truth is, as experience has shown, that even with those additions, a mechanism based on the special concessions plus a few defensive preferences could in any event have done little to mitigate the consequences of the marked heterogeneity in the structure of ALALC. But at least there would have been some basis for reacting in face of the disequilibria, seeking to improve the system through the classification of goods and countries, and making further progress with the liberalization programme. Given the shape in which the preferential treatment was finally incorporated in the formula, the outcome was bound to be early frustration and the ensuing stagnation.

To sum up, it may be asserted that in this sense the evolution of ideas during the ALALC negotiations led to a contradictory result: on the one hand the objective aimed at became more ambitious, since the preferential area was superseded by the free-trade area, while at the same time the compensation mechanism was weakened. Obviously, the two things were mutually exclusive.

It would not be fair, however, to blame any of the protagonists of this frustrated creation of a Latin American common market for the mistakes committed when the compensation mechanism was devised. Knowledge of the subject of integration—the 'state of the arts' which prevailed when ALALC was negotiated—was really rudimentary, especially with respect to integration among developing countries, of which there was simply no experience. CEPAL's ideas, particularly the concept of special concessions, were already introducing innovations in this field, as has been pointed out, and this is still more striking in the case of the Central American Common Market, where CEPAL propounded theses which were to be the seed of what was afterwards called industrial programming. Nevertheless, the differential treatment was neither appropriate nor sufficient in the Central American Common Market, and still less so in ALALC and it is impossible to impute the fact solely or even chiefly to a distortion of ideas during the negotiations. It was the conceptions currently prevailing that carried the brunt of the responsibility, and there is no better proof of this than the very attitude of the weaker countries in accepting, almost willingly, the whole set of conditioning factors which in practice made it impossible for the compensation mechanism to function effectively. When they agreed to share with the larger countries this interpretation à l'outrance of the principle of 'free competition' in the market, the result was the disappearance of negotiation conditions which, probably at least, could have led to the construction of a formula for more valid compensation mechanisms.20

The attitude of the larger countries had, of course, a decisive influence on the structuring of the market in conformity with the principles described; a contributory part was also played by GATT and the United States Government. These positions were naturally determined by the parties' own

20The author can make this assertion without fear of injustice, since he participated, as representative of his country, in some of the rounds of the negotiation in question.
interests; but doubtless, neither were they unaffected by serious mistakes, also due to inexperience, in the evaluation of the possible gravity of the problems involved. Probably, inter alia, the degree of concentration of benefits which the formula would entail was underestimated, or, even more, the extent to which the reaction of those that were dissatisfied, among them the weaker countries, might hamstring the whole process. In combination with their own interests, this lack of knowledge and experience may also account for the political caginess of the larger countries vis-à-vis the demands of the rest —not very pressing either— to the effect that stronger equilibratory elements should be introduced into the system.

For all these reasons, it might be said that when ALALC was set up with the characteristics that it was given, neither the knowledge nor the political will existed that were needed to devise and put into effect a mechanism to compensate the heterogeneity of the parties which was adequate for that specific integration formula. Such a mechanism, given the existing differences, would have had to incorporate a series of powerful instruments, largely handled by communal organs. In the records of the negotiations there is no sign that they were ever even thought of, and undoubtedly, if they had been mentioned, they would not have been accepted as a whole by any of the participants.

Today, in view of this fact, hindsight allows the suggestion to be hazarded that there were two elements in the evolution of ideas which really sealed the fate of the Association. These were:

(i) The rejection of the exceptions to the most-favoured-nation clause which might have allowed the existence of subregional integration groupings; and

(ii) the alteration of the objective of the formula from a preferential area to a free-trade area.

The first of these formed part of CEPAL's original conceptions; save for Central American integration, CEPAL considered any kind of subregional 'exclusivism' within the global formula inadvisable and dangerous. This thesis was generally accepted throughout the negotiations and, in the end, was incorporated in the Montevideo Treaty. Consequently —given the difficulties of creating a compensation mechanism—the formula was deprived of the only effective means it might have had of lessening the problems caused by heterogeneity. Owing to the pressure exerted by the countries forming the present Andean Group, flexibility in this direction had to be accepted later on, unfortunately, however, only when it was too late, ALALC having already become a prey to stagnation. If it had been allowed from the outset, the programme would have had to be different in its instruments, deadlines and other aspects.

The second element imposes greater demands on the formula, with the choice of a free-trade area as an objective; this is the loosest pattern in the traditional typology of integration, but in any event it implies a full opening-up of markets. Its very flexibility with regard to the absence of a common external tariff and other provisions for the harmonization of policies, although in some respects it allayed the misgivings of the weaker countries, left, on the other hand, an even broader field to the mercy of the bargaining capacity of the parties. All it did, at bottom, was to deepen the uncertainty and mistrust of those with the least bargaining power. Accordingly, it would seem that the decisive juncture in the evolution of ideas occurred when the idea matured of abandoning the preferential area objective and choosing a free-trade area as the appropriate pattern, because of its greater formal richness and its compatibility with the exceptions allowed by GATT. According to the documents, as was remarked earlier, this happened at the time of the Consultations on Trade Policy with the participation of experts from the countries of the southern
zone of South America. Up to then CEPAL's preferential area thesis had prevailed; and while it is not certain that a compensation mechanism adequate for such a preferential area could have been constructed, succeeding events leave no room for doubt that to do so was not feasible for the free-trade area. This circumstance, therefore, can well be described as decisive, unfortunately for the worse.

Incidentally, the aforesaid change of objective, in conjunction with the aim of excluding subregional groupings, was also responsible for the shelving of the proposition that the market should be extended to include the whole of Latin America. The more stringent demands of the formula inevitably restricted the geographical scope of the grouping. It would have been very difficult for all the Latin American countries to have taken part in it from the outset; but probably most of them would have done so if it had been a matter of a preferential area, which would have allowed subregional linkages. An ALALC with those characteristics would undoubtedly have attained much greater political significance than the grouping that finally came into being. The consequent increase in heterogeneity, from a functional standpoint, would have had only marginal importance in view of the complexity that ALALC displayed in any case.

Perhaps this article is overstepping its own limits in concluding with conjectures on what ALALC might have been if a different path had been chosen. Only some of the Association's problems have been analysed here, and, in point of fact, it has also suffered from the action of a variety of factors and circumstances, like any other enterprise of such complexity. At the risk of oversimplification, the author deemed it preferable to single out the problems deriving from heterogeneity, because he feels them to be of paramount importance in accounting for the evolution of the movement. Aware of the fragility of any conjecture, he wanted at all events to explore the viability of the alternative structure proposed for ALALC at the start: the preferential area. And the analysis has led to the conclusion that it combined conditions which would have made it more feasible than the free-trade area that finally took its place. This opinion is not based on the \emph{a posteriori} evidence of the actual evolution of ALALC, which in fact is now nothing more than a preferential area. It is based on the belief that the choice, at the right time, of an alternative of that kind would have made it possible to accommodate special situations with much greater flexibility, and to establish an efficacious compensation mechanism, without the necessity of requiring countries to adopt decisions that technically and politically they were not prepared to take. Such a preferential area as that could have been a living political reality, that is, something very different from the preferential area that ALALC has come to be by defect.

That was not, of course, the only alternative. For example, it would also have been possible to follow the path of the free-trade area, but choosing a much more gradual process, allowing of subregionalization and progress by stages with much longer deadlines. As CEPAL pointed out in the document in which it commented upon the results of the sessions of the Working Group on a Latin American Regional Market: "This final objective must be constantly borne in mind, even though it can be reached only by gradual stages. In the first of these, aspirations would have to be confined to partial but attainable targets; and would necessarily have to be the patiently-nurtured issue of a policy conceived on realistic lines and implemented with firmness of purpose". (5)

In any case, these references to valid options, besides being up to a point illustrations of the method, have found a place in the present paper, because the future of Latin American integration is still a moot question, and one which is becoming increasingly urgent.
The author would like to feel that this article has represented some contribution to research on the new paths that integration should follow. Renovation will be an unavoidable necessity in almost all the Latin American integration movements, and for ALALC it is an urgent one in addition. These pages make no claim to suggest such paths. The analysis of ALALC which has been put forward here refers to the circumstances prevailing when it was established, not to those existing today, which would have to be studied for that express purpose. But these reflections may be useful in pointing out certain requisites for action, to which careful thought should be given if the decision to seek integration is to be imbued with the blend of realism and boldness that it always requires.

Annex

ECONOMIC INTEGRATION GROUPINGS IN THE DEVELOPING WORLD

<table>
<thead>
<tr>
<th>Country</th>
<th>Population(^h) (thousands of inhabitants)</th>
<th>Gross national product(^f)</th>
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<tr>
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<td></td>
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<tr>
<td><strong>Country</strong></td>
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<td>Uganda</td>
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<td>St. Vincent</td>
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<td>Trinidad and Tobago</td>
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<td>1 700</td>
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7. Economic Community of West African States (ECOWAS)

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<tr>
<td></td>
<td>(thousands of inhabitants)</td>
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<td>(dollars)</td>
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<td>Ghana</td>
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<td>Guinea</td>
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<td>Guinea-Bissau</td>
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<td>Togo</td>
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*In this annex the population figures given are for mid-1974.*

*The gross national product data appearing in this annex are given at 1974 market prices.*
Regional Planning: What can we do before midnight strikes?

_Sergio Boisier*

*The author is a staff member of the Latin American Institute for Economic and Social Planning (ILPES) of the United Nations.

**Summary**

Nowadays, regional planning at the national level is present in most attempts at social change both in developed and developing countries. The author criticizes the lack of a suitable methodology for conducting the planning process at the level of any given region, emphasizes the limitations, deriving from the degree of openness and relative smallness of the regions, as regards their impact on decision-making, and proposes a process of regional planning which gives prominence to the political aspects associated with the strengthening of regional bargaining power both with the central government and with other institutions outside the region. In proposing a process of "negotiated" planning, the author puts the case for utilizing this process as an instrument for strengthening the democratic structure of society.

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**Introduction**

Tribute has been paid to Keynes on many counts, but few would link his name with regional development planning. Nevertheless, the influence of Keynes' thought on Roosevelt played a decisive part in shaping the "New Deal" as part of the response to the recession that hit the United States towards the end of the 1920s. The setting up by the United States Federal Government of the Tennessee Valley Authority (TVA) would have been difficult, if not impossible, without the favourable conditions for government intervention created by the "New Deal". It is probably true to say that many specialists in regional development view the TVA as the first landmark in the still brief history of regional development planning, at least in relation to the capitalist economies.

What has happened in regional planning in the almost half a century which has passed since then? It is not a lengthy matter to describe the broad outlines of its evolution during this period, particularly with reference to Latin America.

The influence of the TVA "model" finds its maximum expression in the creation of the Venezuelan Guayana Development Corporation at the beginning of the past decade, although a series of regional agencies had already been created in various Latin American countries before this, mainly for the purpose of controlling and exploiting energy and natural resources situated in peripheral regions. The Superintendency of the San Francisco River Valley in Brazil and the Federal Commissions of the principal river basins in Mexico are notable examples.

The fact is that, up to the middle of the 1960s, practically all the efforts relating to regional development planning in Latin America (as indeed in other parts of the world) formed part of schemes for _partial peripheral development_, promoted sometimes by the centre and sometimes by the periphery itself, with a variety of objectives ranging from the reconstruction of zones affected by natural disasters to the political control of potentially conflictive situations on the periphery. In an earlier paper the author presented a typology of all these...
modes of regional development (Boisier, 1976, a).

From the middle of the 1960s up to the present time, these partial peripheral development schemes have been increasingly replaced by schemes for general peripheral development, once again promoted sometimes by the centre and sometimes by the periphery. These general peripheral development schemes represent what is currently known as regional planning at the national level or interregional planning. Whatever the label used, it refers in this case to an attempt to organize and direct the development process with an eye to the problems, potentialities and interests of all the regions of the country. This had led to the designing of multi-level planning systems and processes in which the regional dimension is incorporated at a level of conceptualization and decision-making similar to that of the traditional global and sectoral dimensions.

This change has come about for a variety of reasons, both theoretical and practical, which have been dealt with at great length in recent literature and therefore need not be repeated here. The United Nations has played an important part in the dissemination of this national approach to regional planning, both through technical assistance projects in this field and more particularly through the work of some of its agencies, past and present, which have specialized to varying extents in this subject, such as the United Nations Research Institute for Social Development (UNRISD, Geneva, Switzerland), the United Nations Centre for Regional Development (UNCRD, Nagoya, Japan) and the Latin American Institute for Economic and Social Planning (ILPES, Santiago, Chile).

From a methodological standpoint, important advances have been made in each of the stages involved in the design of a regional plan of national scope, as well as in theoretical and empirical knowledge of existing situations and explanatory hypotheses. We know how to make good diagnoses (though there is plenty of room for improvement in their interpretation) and have considerably clarified the nature and interrelation of the various objectives of regional development; we have developed quantitative models, both simple and complex, to convert these objectives into targets and to analyse the crucial problem of target coherence (Gruchman, 1976); we have made significant progress in defining the nature and content of regional development strategies, and we have built up quite a good knowledge of economic and institutional policies and instruments for promoting regional development, though of course all this can be improved and refined.

In brief, we have succeeded in creating a creditable image as regional planners at the national level and we have been skillful enough to convince numerous governments of developed and developing countries of the need to prepare national plans for regional development. The growing professional and academic activity in this field throughout the world is proof of this.

If the average age of the brotherhood of regional planners were around 60 years, there would be no reason to worry in the face of such a positive state of affairs. Retirement would be approaching, and perhaps we could gracefully evade the real problems and retire with all the prestige of intellectual innovators. Unfortunately it would appear that our people, while generally of mature age, are still far from old, and we may therefore find ourselves obliged to reply to some awkward questions posed by those who are actually responsible for preparing regional plans which will produce results in precarious circumstances. What shall we, the academics and experts, reply to the host of regional planners whom we ourselves trained when they ask us in chorus: How do we prepare in practice a development plan for a specific region that really works?

For purely selfish motives, then, and even if only in order to preserve our image, it might be prudent to begin to prepare a reply now, before the clock strikes twelve, as it did for Cinderella, and before the spell of
enchantment with regional planning is broken.

A paradox of the regional planning process at the national level is that we have developed and adopted this methodology as a reaction to the traditional development programmes for single regions considered in isolation, because it seems to us, with reason, that such programmes were successful only in exceptional cases and overlooked the essential fact that regional underdevelopment (or in some cases the total lack of development), was not a fortuitous circumstance, but simply the inevitable result of a certain type of overall development (regardless, to some extent, even of the actual political and economic system), so that the particular problem of a region could not really be solved except in the wider context of the group of regions as a whole. The theoretical and practical bases of this were clearly established, and it remains a solid and incontrovertible fact. Thus, in preparing national plans for regional development, we are confronted with the economic problem in its simplest and starkest form: shortage of resources in the face of a generally large number of regions, each with multiple problems and different growth potentials. As the simple solution of equal sharing of the available resources is no use, we find ourselves obliged to determine regional priorities, so that national-level regional development plans conclude in glowing pronouncements about the brilliant future which awaits all the regions, but make concrete proposals for action in only two or three of them. The paradox is that at the other end of the road we find ourselves once again with the same initial problem, which is to prepare a development plan for one particular region (or for a few regions), although of course now on more favourable terms, since we are presumably working within a well-defined national framework as regards strategies, policies and programmes.

What is to be done? The obvious reply would appear to be: prepare the regional plan in the same way as the interregional one. Though apparently obvious, however, this solution would not appear to be the best. It may be that the problems is more complex than a simple scaled reduction of a methodology. It may be that the theoretical bases of a national plan for régional development are not appropriate on a reduced scale (as may be the case, perhaps, with the theory of growth poles and growth centres). It may be that the analytical arsenal of the interregional planner is excessively biased towards urban and industrial aspects, whereas these features may not be predominant in a particular region. It may be that the institutional and administrative machinery of a region is simply incapable of operating in terms of a development plan. It may be that statistical and other information is scanty and inadequate at the micro-regional level of detail. All this and a great deal more is possible.

Another response, also obvious in certain circumstances, would be to do nothing at all. This is certainly a valid response within a completely centralized regional planning scheme in which use is made, for example, of quantitative interregional programming models, one output of which is precisely the programme of sectoral/regional growth and investment. The well-known "Rotterdam model" does in fact produce results which minimize the task of planning in each region. This type of response, however, though undoubtedly efficient, is highly centralized, permits little participation, and therefore in the last analysis is far from democratic.

The problem described above may not be very serious in the case of the region which is given highest priority, as the greater part of the central government effort is usually concentrated there, but what is to be done in the case of a region which receives only second or third priority? This is where the problem arises in all its magnitude. If few official efforts are directed to such a region, there is no other alternative than to improve the conditions which make self-help possible.
The apparent inadequacy of the application of more or less classic planning methodologies to particular regions is reflected in the dissatisfaction of a number of institutions and experts with the normal procedures and in the search for new solutions.

Thus, for example, Avron Bendavid has developed the so-called “concepts-strategies-projects” approach (Bendavid, 1972) as a more realistic option for regional planning and has recently amplified the same idea in a more formal work (Bendavid and Waller, 1975). The United Nations Centre for Regional Development in Nagoya is preparing a project entitled: “Methods of planning for comprehensive regional development” — MPCRD (UNCRD, 1976), an ambitious project with the very objective of establishing a suitable method for the planning of individual regions in the context of Asian under-development. The United Nations Latin American Institute for Economic and Social Planning (ILPES) has tried out, in its assistance to subnational agencies in Brazil, Mexico and Venezuela, new methodologies and approaches for formulating development plans for single regions. Some of these experiments have been published (Costa-Filho, 1975; Valle, 1975). Van Raay has also recently examined this same problem from a wider standpoint (Van Raay, 1976) and the present author has also referred to the same topic on another occasion (Boisier, 1976, b).

More recently, Stöhr and Tödtling (Stöhr and Tödtling, 1977) presented to the Seventeenth European Congress on Regional Science (Cracow, August 1977) an interesting paper on this same subject, in which a strategy of “selective spacial closure” is proposed with a view to preserving regional autonomy and generating responses more in keeping with the particular problems of the regions.

It is not difficult to understand the specialists’ concern with seeking alternative planning methods for single regions. Quite apart from any other consideration, the basic question is that the development plan for a single region is in all probability directed towards the management of an economy which is essentially small in relative terms and in many cases in absolute terms as well.

The priorities laid down in the national regional plan will assuredly be expressed in proposals to control the growth of the “centre” (coinciding generally with a metropolitan-type region) and to stimulate the growth of one or more peripheral regions. Some of these are precisely the “small” regions.

Some time ago the Economic Commission for Latin America (CEPAL) prepared a study of the experiences of various Latin American countries in calculating the regional gross domestic product (CEPAL, 1975). An analysis of the relative participation of the regions, states or provinces in the national total gives a rough idea of the typical economic size of the territorial units which would come under an intra-regional development plan.

Thus, for example, in Argentina (1968) only two of the 24 provinces registered a share equal or superior to 10% of the GDP of the country; in Brazil (1968) only three of the 22 states achieved this level of participation; in Chile (1970) three of the 12 regions; in Colombia (1964) three of the 18 sections; in Ecuador (1965) two of the 16 provinces; in Mexico (1970) one of the 32 states; in Panama (1968) three of the 9 provinces, and in Peru (1965) three of the eight regions. This corroborates what was stated earlier, namely, the very small field of operations to which the preparation of a regional plan is normally confined. The fact that most of these geographic units correspond to administrative divisions rather than to planning regions in no way invalidates the argument.

The immediate consequence of this should be the recognition of the extreme importance of what we might call the parametric environment in planning the development of a specific region. In other words, the conditions, events and decisions external to the region will normally have a more significant impact on its development than the internal elements themselves.
This has naturally not passed unnoticed by economists and regional growth theorists and the most widely known texts contain warnings about the different degrees of openness of the regional and national economies, while quite a lot of progress has been made in the formalization of externally induced regional growth models (Siebert, 1969). In reality, however, we are dealing with something which goes beyond mere economic openness (viewed as the relation between the volume of external trade and the domestic product) and is more complex than the mere recognition of the role of external demand and external investment in regional growth, as these aspects are treated in the models for the economic base, interregional multipliers and growth. The question which immediately arises is the following: Are the planning methodologies equipped to take account of the parametric environment?

Is it not rather the case, as several authors suggest (Gutiérrez, Ortiz and Villamil, 1971), that the planning methodologies were designed to deal with economic systems which are relatively closed or, at least, more autonomous as regards their control? If this is so, it might be necessary to revise the planning processes, especially from the standpoint of management and control, in order to link them closely with systems analysis. The planning of a region will constitute a typical case of control of an open system.

From an operational standpoint, systems analysis could make a substantial contribution to the restatement of the forms of planning for a region. From the conceptual standpoint, on the other hand, it seems essential to make a distinction between developmental planning and adaptive planning, in order to redefine the form assumed by the planning process in a region (Friedmann, 1973). According to Friedmann:

"Planning for change can assume two basic forms according to a criterion relative to the autonomy of planning units in the making of decisions. Under developmental planning, there is a high degree of autonomy with respect to the setting of ends and the choice of means; under adaptive planning, most decisions are heavily contingent on the actions of others external to the planning system. In practice, of course, most planning decisions are made along the continuum between complete autonomy and complete dependency, and the behaviour of planning systems will differ according to the distribution of decision functions between the two extremes. For instance, planning for urban development at the level of the city will usually be more adaptive than developmental: to a great extent, it will need to respond or adapt to external forces, such as shifts in the locational preferences of national industries, which the municipality cannot significantly influence through its own actions. In planning for national development, on the other hand, the public authorities are able to control a larger number of the variables relevant to their own objectives, so that the nation is much more independent than any of its municipalities. Even among nations, however, there may be differences in the degree of dependency on external forces; and a small, weak nation such as Haiti has to plan more adaptively—if it is planning at all—than the city of São Paulo.

“What are the main differences in the expected behaviour between developmental and adaptive planning? I should not like to take the metaphor too far, but it may be instructive to compare the relationship between developmental and adaptive planning with that which exists between a slave and his master. Assuming that the slave remains a slave (and of course he may decide not to), how does he promote his personal interests? Four forms of behaviour come to mind:

1. The slave will strive to influence his master’s will in his own favour,
without any particular end in view, but rather seeking a reasonable relationship and seizing any change of immediate gratification that may arise.

"2. The slave will seek to increase his sphere of independent choice and action.

"3. The ambitions of the slave will generally be more modest than those of his master. But, in his desire to achieve greater independence, he may adapt his aims more and more to those of his master, imagining a joint or common interest that he may share by adhesion. This is the typical feudal relationship.

"4. The slave may have recourse to political manipulation with a view to changing his master's will in favour of his own interest. The term "political manipulation" should be understood in this context in its broadest sense and may include excessive subservience, flattery, insinuation, subtle pressure, deceit and other forms of indirect manipulation.

"Now, it seems that a form of behaviour similar to that of the slave is a feature of adaptive planning too. There will be a tendency to push decisions upwards to centres of developmental planning where the parameters for choice at lower levels may be changed. In attempting this, the lower-level planning systems will generally rely on political manipulation to achieve their ends. (Underlined by the present author.) So that negotiations with the central authorities may be conducted with equal technical competence, however, counterplanning may be added to political action. Since, on the government's side, any bargaining in a complex advanced economic system is usually done by qualified technical experts, the contending parties must enter negotiations at least as well prepared.”

I

Nature of planning for a single region

However an economic plan is defined, it implies a finite and arbitrary collection of decisions which are taken a priori to affect the probable course of certain events. These decisions mainly concern the allocation of resources and administrative forms and procedures (including the setting up of new institutions). A decision is only such when it affects a variable or circumstance which is contained within the sphere of control of the decision-maker (I cannot “decide” to put an end to racial segregation in South Africa, for example). As will be seen at once, this interpretation of the nature of a plan calls into question the very idea of a “regional plan” in many cases, at least when the plan for the region is regarded as an instrument of and for the regional administration, that is, as a regionally autonomous process.

What are the economic resources which can be managed by regional administration?

If we confine the scope of the question to the financial aspect it is not difficult to answer. First, the region may use resources stemming from the product of certain direct and indirect taxes which the tax legislation concedes to the local regional governments (some taxes on property, certain taxes on services, etc.). Secondly, the region may use its own revenue (holdings and shares in certain regional economic activities). Thirdly, the region may in some cases make use of the local, national or international capital market, either by issuing bonds and debentures or by contracting obligations. Fourthly, the region may use resources transferred by the central government.

Are these resources substantial? The reply in general is that they are not. In view of the centralized tax and budgetary systems prevalent in many countries (in all Latin American countries with the possible excep-
tion of Brazil) the regional or local tax income is minimal, as any local authority would hasten to confirm. Local revenues are, in the overwhelming majority of cases, quite negligible; only in exceptional cases connected with the exploitation of a natural resource or the enjoyment of some special privilege are they significant. The regional utilization of the capital market is still in its infancy in most of the developing countries and it seems unlikely that the poorer regions could benefit from such a system, although the possibility cannot be entirely discounted. The transfer of resources from the central government, potential in some cases and real in others, constitutes the most reliable and important source of help. This excludes, of course, the budgetary allocations assigned to the region by sectoral government agencies, since these grants are decided by the agencies and not by the region. It follows, therefore, that when speaking of transfers we are thinking of fixed sums which the central government places at the free disposition of the regional administration. The empirical evidence is that, even in the countries where national regional development funds have been established, these transfers are not very substantial.

It is clear, therefore, that regional decisions on the allocation of resources are necessarily very limited and in any case insufficient to contribute in any marked degree to the solution of the main problems of the region.

With regard to institutional or administrative decisions, the situation is no better. Given the pronounced degree of centralization of the public administration in many countries, and particularly those of Latin America, the regional administrative machinery consists (when it exists as such) chiefly of regional branches of the national agencies and only to a very small extent of genuinely regional bodies. Even though such branches may be formally subject to the regional authorities, there is no doubt that in a real sense they are subject to the authority of their own central headquarters. Thus the scope of regional decisions in this field is also very restricted and, with scant resources, it may be unrealistic to think of establishing new institutions.

These brief considerations should be sufficient to rule out (in most cases) the possibility of making a regional plan in the classic sense, i.e., a set of decisions controlling variables which are really controllable. A planning process for a region should therefore be designed to make viable and to maximize the capacity to intervene in the parametric environment of the region.

The form which such intervention takes will depend on the relative balance of power between the intervener and the intervened. The greater the relative power of the intervener, the greater likelihood of an authoritative or forceful intervention; the less this relative power, the greater the likelihood that the intervention will become negotiation. As we have seen that the typical size of a region is relatively small, it is reasonable to assume that the power of regions to intervene in their parametric environment will be limited, and it is equally reasonable to assume that in such a case the region will tend to change the possibility of intervention into negotiation with the agents comprising the parametric environment, basically the central government and secondarily the national public and private enterprises, the transnational corporations and the external market itself.

In this case the main objective of regional development planning will not be to mobilize the internal resources of the region (though this will always be a component of regional development) but to maximize the regional capacity for negotiation.

John Friedmann, however, in his study cited above, presents a different view. He writes:

"Different degrees of autonomy and dependency in decision-making tend to be mirrored in a hierarchy of planning authorities which stand in more or less systematic technical and political rela-
tion to one another, each level having its appropriate function and decision power. Since each higher level is capable of changing some of the relevant conditions for decisions at all lower levels, and since every change of this sort represents some change of policy, programming —the detailed specification of investments in volume, time, and place— tends to be emphasized at lower levels. Or, put in another way, developmental planning tends to shade off into policy making, adaptive planning into programming. In fact, however, the two become mixed in varying proportion, according to the point on the autonomy/dependency continuum where planning occurs.

"In developmental planning, the role of political institutions for guidance and conflict resolution becomes obviously crucial, for it is here that the basic policy decisions are made and that the clashing interests of adaptive planners must be resolved. Developmental planning is not only a technical, but also, and to a large degree, a political function."

(Friedmann, 1973.)

Further on it will be seen that, precisely because of the decisional limitations deriving from the size and degree of openness of the regions, regional adaptive planning in most cases assumes a character quite distant from that of 'programming', contrary to the implications of Friedmann's view, though this is valid for many situations.

As Gutiérrez, Ortiz and Villamil observe: "To treat the countries (or regions in this case) as open systems implies the following: first, it is necessary to identify the interchange network between the country (region) and its "setting"; secondly, it is necessary to define in detail the nature of the relations between the country (region) and other countries (regions); thirdly, it implies a high degree of exogenous action in respect of the critical variables in the planning or decision-making process" (Gutiérrez, Ortiz and Villamil, 1971).

The same authors add: "An open system can exist under conditions of dependence or interdependence, where the former reflects a condition of domination and the latter of reciprocity".

They also state that: "Political dependence involves or imposes economic and social dependence. In these cases, which approximate to the conditions of planning by regions or subnational units, there is a hierarchy in the planning system and the best that can be done is to try to minimize the negative effects and to maximize the benefits of the dependent relationship, within the limits imposed by the dominant system".

In a later and more detailed study of the subject, when discussing the problem of decision-making in a situation of inadequate resources, Gutiérrez and Villamil affirm: "The relative inadequacy of resources should be understood in the context of lack of control or in terms of certain limitations in respect of policy options" (Gutiérrez, Villamil, 1973). These limitations on the design of policy options are a direct result of the small size of certain countries and regions.

From the foregoing observations, certain important conclusions emerge which help to redefine the scope of the planning process for a single region. In the first place, there is the need for a thorough clarification of the structure and functioning of what we have called the "parametric environment" of the region: a task which will be included within the regional diagnosis. In the second place, the authors quoted reaffirm the idea that the planning of a region implies the management of a system which is dependent from the standpoint of decision-making: a feature which will have an effect—as we shall see later—on the relative roles of the plan and the regional strategy. In the third place, the limited choice in the design of policy options is seen to stem from the small size of the economic system of a region, a circumstance which will necessarily affect the approach, procedures and machinery of regional planning.
Accordingly, it seems clear that in practice regional planning is as much a process of negotiation and management as a technical exercise, and the decision-making framework within which the planners and other groups function stands out as a subject worthy of special analysis. Precisely this argument is put forward by Dunham in his examination for the case of Ghana — of the formation of spatial structures as a result of the interplay of group interests (Dunham, 1976).

Another important aspect which calls for comment concerns the notion of strategy in the context of the planning process for a single regional and its relation to the concept of the plan as this has been outlined above.

A regional development strategy can be defined with some precision in the following terms: "A regional development strategy is a limited set of important decisions which, on the basis of the possible reactions of the environment, seeks as its principal aim to maximize change in a regional system while at the same time minimizing the adverse reactions of the system" (Boisier, 1976, b).

In the case of regional planning at the national level the most important decisions relating to the strategy are: (i) the definition of the degree of tension that a system can support, that is, the specification of the intensity of control that can be applied to the "centre" in order to obtain surpluses from there which can be transferred to the "periphery"; and (ii) the definition of the style of regional development which is sought, by means of the evaluation of and selection from a number of important options (e.g. horizontal development versus vertical development). In the same perspective of regional planning at the national level, the regional strategy complements the plan, since, taking the country as a whole, most of the decisions relating to the development of the regional system are made within the sphere of control of the country itself. Thus, the concept of the plan (as a set of pure decisions) becomes relatively more important than the concept of the strategy (as a set of stochastic decisions and procedures).

In the case of a single region, particularly if this is small and open, the relations between strategy and plan are different. Given that in this case most of the elements of control of the system are external, the development strategy for a single region has another connotation, since in these circumstances the strategy seeks to maximize the possibility of generating decisions on the part of the external elements of control (the agents of the parametric environment) which are suitable and advantageous for the development of the region. In this sense, the development strategy for a region is seen to be closely associated with concrete procedures for action rather than with the creation of conditions for a group of agents to act in accordance with a pre-arranged scheme, as in the case of a national strategy for regional development. From a complementary point of view, it can be stated that the development strategy for a region seeks to reduce the degree of uncertainty in the negotiating procedures between the region and the external agents.

Considering that the pure decisions capable of being taken by the region are relatively few, the plan of the region is comparatively less important than the strategy, so that in this case the plan is complementary to the strategy: the opposite to the relation which exists at the national level. The following diagram illustrates the different relationship between strategy and plan in the case of a regional system as compared with a single region.

Mention should be made, however, of the relative character of such statements as: "The strategy is less important than the plan in the case of interregional planning", as the phrase "less important" simply means that there are more elements subject to control in one case than in another. It does not imply a reduction in the absolute importance of an adequate national strategy for regional development.
To sum up, then, planning for a region consists of two components: a decisional component (the plan proper) and a procedural component (the strategy, which includes the specification of the fields to be negotiated and the machinery of negotiation).

II

The regional diagnosis revisited

How then can we design a practical planning process for a single region which fulfills the foregoing requirements?

Saint-Exupéry said that founding the future involves first and foremost thinking about the present, and hence acquaintance with the region itself, its potentialities, its limitations and the factors operating behind these limitations is the first task and the first stage in regional planning, whatever form this may assume. A good diagnosis is the chief requisite of the plan.

Though this is obvious enough, and though we have built up an appreciable body of experience in the preparation of economic diagnoses, it is no less certain that—at least in the case of Latin America—the regional diagnoses so far known to us are relatively good descriptions rather than adequate interpretations. Such descriptions are useful, but without an interpretation their value is practically nil.

Diagnoses can be regarded as a process in itself, for which certain inputs are needed and from which certain outputs are derived. The transformation of the inputs into outputs presupposes some specific action at this stage.

The first input needed for the diagnosis consists of information, both on the region and on what has been called the regional parametric environment. Since the object is to prepare a practical planning methodology, and this implies both feasibility and timeliness, we cannot be very demanding at the outset as regards information. We know perfectly well that in this respect there will be a general lack of regional statistical information, but we cannot wait for modern information systems to be designed and put into effect if the aim is really to achieve something in the short term. The “art” of regional planning in this case consists of the intelligent use of indirect information, national data sources, and any odd bit of information available, with a view to extracting facts about the region.

Information for the diagnosis is of three
different types. In the first place *statistical information* is required, i.e., data concerning the state and performance of the principal regional and extraregional variables. Secondly, there is a need for *political information*, referring to the strategies, plans, policies and projects promoted by the central government. Thirdly, information must be built up from *opinions*, i.e., the objective and subjective appraisals of the regional actors (authorities, entrepreneurs, workers, etc.) regarding the problems and potentialities of the region.

With regard to the first category —statistical information— it will be useful to prepare in advance as complete a list as possible of the desired data (examples of such lists can be found in various textbooks on regional planning). The purpose of this list is not to amass all the information suggested (this would prolong the whole process) but to use the list as a guide in order to, first, prepare a second shorter list of the items available or obtainable with very little effort and, second, to establish an order of priority in relation to the data (e.g., in a preeminently agricultural region industrial information might be easier to obtain but it would obviously not have top priority). It would seem that the essential point here is to study in depth the statistical sources of *national data* (censuses, social accounts, etc.) in order to extract from these the data concerning the region. This is a procedure which, if well carried out, usually provides more information than is generally supposed.

The aim of collecting the political information, as already noted, is mainly to gain a clear picture of national economic policies (e.g., monetary policy or policy on public expenditure), of sectoral policies (agriculture, industry), and of directly productive investment projects as well as social and infrastructural projects proposed by national government agencies, the objective being to assess the possible impact of this set of decisions on the region. In some cases this can be quantified: for example, the number of housing units which the Ministry of Housing proposes to build in the region or the number of jobs which an industrial project will generate, but in other cases it will not be so easy: for example, it is difficult to assess the impact of the country's monetary policy on the region.

In view of the nature of the planning process proposed, the political information is extremely important, since it refers precisely to the regional parametric environment or, at least, to the most important part of this: the action of the central government. Consequently, a very serious effort should be made to obtain this information and organize it effectively.

The information relating to the economic policies promoted by the central government should be at least summarily assessed by the regional working group. A very detailed analysis is not necessary at this stage; it is enough for the working group to be able to give a reasonably informed opinion as to whether this or that policy is positive or not in relation to the development envisaged for the region.

On the other hand, the opportunity arises, even at this stage of the regional planning process, to effectively bring into it both the regional and especially the national policy-makers of the public sector. It is not enough to seek information on policies and projects through a formal request nor does it suffice to have an understanding between the regional and sectoral planners. Interaction between regional political authorities, planners and national authorities is essential for the subsequent conversion of the plan into action.

The information derived from opinion is an important complement to the two foregoing categories and its collection simultaneously provides an opportunity to incorporate into the planning process another important set of actors: regional groups. This is useful both for tactical and doctrinal reasons. From the latter standpoint, planning is conceived as a participative and socially integrating process, while
from the tactical point of view, the leaders of the regional social groups effectively complement the functions of the planner in respect of the missing information which they can and often do supply and in respect of problems of everyday life in the region which might pass unnoticed by the technician. Reference will be made below to the techniques which may be used to collect this information in a reasonably objective manner.

The second type of input required for the construction of the diagnosis is concerned with the techniques of regional analysis. The mere mention of this is apt to cause raised eyebrows, partly because there is a tendency to think of complicated econometric techniques requiring specialized skills and consuming enormous amounts of time and resources. But if our concern is merely to prepare a feasible and timely plan, using scanty information, we shall naturally have to rely on more elementary techniques of analysis.

It should be understood that two types of analytical techniques have to be used: (i) conventional techniques for the processing of statistical data, and (ii) non-conventional techniques for the processing of more subjective information. Among the latter are exercises of the brainstorming type, the formation of think tanks, and the use of methods such as the delphi technique to identify priority problems, for example.

Fagence, in Citizen Participation in Planning, devotes a whole chapter to analysing the ways and means of citizen participation in planning processes (Fagence, M., 1977).

With regard to the conventional techniques of regional analysis, descriptions of these can be found in various textbooks (Isard, 1960; Boudeville, 1966; Bendavid, 1974; Boisier, 1977). Clear preference should be given to those simple techniques for which data can be found in national statistical data sources (e.g., measures of concentration and of specialization, the shift and share method, gravity models, etc.). Since the procedure of learning-by-doing is more suited to the performance of less urgent tasks than those imposed on planners, there is a need in this case for the collaboration of experts with sufficient theoretical knowledge and practical experience.

The general aims of the diagnosis for this form of planning are: (i) to identify the main problems of the region, with their respective priorities; (ii) to identify the agents of the regional parametric environment; (iii) to establish the links between the problems and the conduct of these agents; (iv) to identify the chief regional growth potentialities, and (v) to project the future regional situation in the light of the probable behaviour of (i), (ii) and (iii).

Accordingly, the output of the diagnosis will be: (i) a description; (ii) an interpretation; and (iii) a projection.

The description relates to the actual state of the region and, as this cannot be an extended account, its content and formal layout should be planned in advance. The description can be arranged along the following lines:

(a) Description of each territorial unit contained in the region (provinces, communes, districts, etc.) as far as available information permits. This description should include details of physical features, economic features, socio-political features and inter-microregional relations;

(b) description of the functioning of the whole system as defined by the units already described: e.g., what changes have occurred within a given period in the total regional population and its intraregional distribution. The object of this type of analysis is to gain an approximate idea of the internal dynamics of the region;

(c) description of the system of human settlements in the region both in its urban and rural dimension;

(d) description of the transport and communications systems within the region and their external connexions;

(e) description of the regional administrative system and procedures connected...
with development, with special emphasis on the aspects of interagency co-ordination, faculties and delegation of functions.

Another function of the description, as an output of the diagnosis, is to provide an account of the long-term evolution of certain key variables such as population and production. This will enable the planner to distinguish between long-standing structural problems and short-run problems.

The description also includes —and this is fundamental— an identification and order of priority of the main regional problems. No attempt should be made to draw up an over-long list which would tend to represent subjective views rather than real problems. At this point an effort of imagination is required of the planners. Examples of the questions which might be asked as a help in identifying the problems are the following:

1. Are there any marked deficiencies in the region's supply of natural resources? Is the deficiency (if any) real, or is it a question of lack of knowledge?
2. Are there any marked deficiencies in the region's supply of human resources?
3. What is the relationship between 1 and 2? Is there a problem of saturation? Is there a problem of spatial under-occupation?
4. Are there any marked deficiencies in the region's supply of economic and technological resources?
5. What is the assessment of the economic growth of the region? Is it below the level which the conditions in 1, 2, 3 and 4 above should permit?
6. Does the region's location with respect to national and international markets constitute a serious obstacle to exports?
7. Are there acute problems of income distribution in the region? If so, are they radically different from similar problems at the national level?
8. Are there institutional problems whose removal could of itself speed up regional growth?
9. Are there typically social problems in the region, such as obvious segregation, racial questions, essentially conservative dominant groups, absence of social organizations, etc.?

Although all these questions are important, I have deliberately mingled questions referring to certain effects with those which refer rather to causes. I have done this for the purpose of showing the need to make an effort to separate the two; diagnoses very often present all these problems mixed up together, which makes the subsequent identification of policies more difficult. For example, regional economic growth is mainly an effect of causes connected with one or more of the other eight questions, but it may also be a cause of situations such as those connected with questions 4, 7 and 9.

A discussion in depth of these and other questions among planners, authorities and community representatives will generally end in agreement on one of the following three points: the regional economic growth is apparently below the level which the sum total of regional resources should allow; or else the regional economic growth is considered satisfactory but it is clearly generating social problems which cannot be allowed to continue in the long-term; or finally, the regional economic growth cannot be raised above a level imposed by the supply of natural resources, and the remedy must be found in migration.

In identifying the problems it is necessary to go straight to the point and not be sidetracked. If a region is clearly short of housing, this is very likely an effect of faulty income distribution, over-rapid immigration, lack of adequate financial machinery or other reasons, but it rarely represents a substantive problem. It is important of course to identify this type of problem, but it is much more important to devote time and effort to those problems whose solution would have the greatest multiplier effect in dealing with other problems.

Finally, the description includes an identification of the main regional potentialities. The bases for this should be as
objective as possible. What regional elements, natural or not, could be used to better advantage? Has the region a good climate and beautiful scenery (tourism)? Has it soil, energy or mining resources of special importance (agroindustry, energy production, mining)? Has it important markets (industry, commerce, services)? Has it universities or a special endowment of technical experts (research, technology-intensive industries)? Has it basic industries (complementary industries)? How soon could these potentialities be exploited, and what would be the approximate volume of national and international resources required?

The second part of the output of the diagnosis consists, as already mentioned, of the interpretation of the data and facts described above. This is the most difficult and also the most important part of the diagnosis. It is the most difficult because what is needed in reality is a theory (or several alternative theories) to detect the causal relations between phenomena, so that action may be taken to deal with the causes and not just the effects. Here, moreover, it is necessary to link the regional problems with the parametric environment.

I have some doubts as to the capacity of the regional theories (at least in their present state) to pass the test of practical applicability. I believe that we have as yet advanced very little in this respect, so we shall have to adopt a more rudimentary procedure.

First of all, it is necessary to identify the agents who operate in the regional parametric environment, their ways of operating, and their relative importance.

The most important agent in the regional parametric environments is undoubtedly the national or central government. The national government influences the performance of the regional economy through a series of decisions, the chief of which are concerned with: (i) global, sectoral and interregional economic policies; (ii) public investment which is not directly productive (infrastructure and provision of services); (iii) current expenditure; and (iv) administrative rules. The second important agent consists of the public enterprises located in the region, which affect the regional situation through decisions connected with: (i) the volume of production; (ii) the regional content of their activities (purchases of local inputs, linkages in general); and (iii) the regional investment and re-investment of these enterprises. Of parallel importance are the national private enterprises and the transnational enterprises, through their decisions on production, regional content, the handling of profits and employment conditions. The national and international commercial banks are important through their financial decisions regarding the amount and cost of regional credit. Finally, the external market is another important agent in the parametric environment, in terms of extraregional demand for goods and services and of nonresident spending in the region.

Let us now suppose that the main problem of the region has been clearly established. In many cases, and in the last analysis, this problem will be that of an unsatisfactory economic growth rate in the region. This can be interpreted in absolute terms (a 0.4% annual growth rate is low by any standards) or in relative terms (a 5% regional growth rate compared with a 10% national growth rate), and the distinction may be useful further on.

The question is, then: Why does the regional economy grow so slowly and what is the relation between this and the agents of the parametric environment? It will be necessary to carry out at least one check such as the following:

(a) Inadequate amount of regional investment. Scantly regional investment could be due to one or more of the following causes:

(i) Ignorance of the potentialities and resources of the region on the part of the private or public sector;

(ii) lack of a suitable selection of project ideas and feasibility studies;

(iii) high cost of financing or lack of long-term financial resources;
(iv) lack of entrepreneurial groups in the region;
(v) vague or erratic economic policies which affect the investment process at the national level or which affect it particularly in the region;
(vi) low political capacity of the region to press for the allocation of public resources;
(vii) preferential policies for other regions;
(viii) low profitability of known projects or a general impression of lower returns in the region compared with similar investments in other regions.

(b) Overall regional investment is adequate, but it is conspicuously unbalanced. This tends to happen in the case of investment policies mainly directed towards providing an infrastructure (one may recall the case of the spread of industrial estates in several countries in the 1950s and 1960s) or producing energy which is ultimately used by other regions.

(c) Overall regional investment is adequate, but it has been primarily directed to sectors of slow national growth or to sectors having little integration in the regional economy. This case is quite common and generally derives from badly conceived industrialization strategies or strategies which simply ignore regional considerations.

(d) The regional market is small, as is the volume of exports. This could be the result of one or more of the following causes:
(i) Small regional population;
(ii) adequate population, but low levels of income and/or excessive income concentration;
(iii) high transport costs which hamper the sale of regional products outside the region (or lack of transport systems and media);
(iv) obstacles of an administrative type which respect to international trade, including shortage of information on markets;
(v) higher production costs than those applying to similar activities with export potential situated in other regions;

(vi) low regional capacity to attract non-resident spending (no proper management of tourist resources, if these exist).

(e) Lack of skilled manpower, including technicians, engineers and managers. This would hamper the putting into effect of otherwise viable projects.

(f) Lack of (or inability to obtain) the technology needed for the exploitation of certain natural resources in the region.

If it is possible to draw up a list of factors which are not autocorrelated and which provide a reasonable explanation of the problem of the slow growth of the region, it will not be difficult to identify the corresponding agent of the parametric environment and the type of action (by the agent) most appropriate for the factor in question. Thus, for example, if the working group agrees on the primary importance of the factor "inadequate amount of regional investment" as the causal element of the slow growth, and if it has been established that this is mainly due to the "low political capacity of the region to press for the allocation of public resources", then this automatically identifies the agent (the government) and the type of action involved (public investment). Accordingly, it will now be possible to design a strategy for negotiating with the agent with a view to changing his conduct.

Naturally, there is no simple recipe for carrying out the above exercise in practice and therefore much depends on the professional quality of the working group in carrying out this task of causal identification.

Lastly, the third part of the output of the diagnosis is a set of regional macroeconomic projections in terms of a small number of key variables. To this end, an analysis of the present situation and its long-term evolution is combined with the probable effect of the known policies and projects. A projection prepared in terms of the probable evolution of the population, the level of economic activity and the land pattern use at the regional level will be useful not only in order to gain some idea of what the region might
become in ten or fifteen years' time if matters are left to develop on their own, but also because it makes it possible to verify the analysis of present problems and gain some idea of the new problems that might arise in the future.

Before going on to the next stage of the planning process, it would be useful if the working group were to prepare a summary and conclusions on the basis of the diagnosis. The summary should centre on a clear presentation of a very small number of problems considered of priority importance for the region, their nature (a mere list of the problems is not sufficient) in terms of the manner in which they originated, their evolution (problems may either get worse or remain more or less constant), the relation between them (whether or not they are independent problems, and in the latter case, what type of linkage exists between them), and the relationship between each problem and the agents of the parametric environment whose actions in one way or another influence the state of the problem.

Since this summary of the diagnosis will henceforth play a highly important role in the rest of the process, special attention should be paid to the way in which the conclusions are presented. Language that is somewhat over-technical may be useful when dealing with certain types of people, but possibly not with the most important. Therefore, an effort must be made to use clear and simple language that is intelligible to all. A number of well-known visual techniques (maps, graphs, scale models, etc.) could be most useful. An important though undoubtedly difficult point is to present the regional problems in terms of the main concerns of the person being dealt with, i.e., the appropriate agent of the parametric environment. If the basic concern of those responsible for economic policy is, for example, the control of persistent inflation, the region will not get very far by harping on a growth problem (whose solution might involve greater fiscal expenditure), since that would not be the answer to the main concern. In other words, the region should learn to "communicate" its problems, that is to say, to translate them into a language that reflects the interests of those to whom the problems are presented. Since a great many economic problems are interdependent, it is by no means impossible —although neither is it a simple matter—to make such an adjustment.

III

Objectives and goals in the planning of a single region

If the methodology used in regional planning at the national level (interregional planning) were also used at the regional level, once the diagnosis was completed it would be necessary to identify the development objectives and then carry out the quantitative scaling of these objectives, i.e., to establish targets.

A development "objective" is associated with a specific "state" of a certain variable in the image-objective. An objective is not an action in itself, but it necessarily implies an action. The action implied by an objective is precisely the policy defined in order that the variable may reach the desired "state". For example, a proposal such as "to redistribute income" is not an objective, since the use of the verbal form denotes an action. Correctly stated, the objective in this case would be: "income distribution of such and such a nature", which may or may not involve an action such as "to redistribute" in the sense of transferring current income from certain groups to others. Obviously,
the desired pattern of distribution (the objective) can be achieved through actions which have nothing to do with transfers.

The fact that an objective is always associated with an action, without actually being an action as such, denotes the capacity of the social agent which establishes the objective to implement the relevant action. In order to implement an action (which is a policy), it must be possible to exercise control over the elements making up the action or policy, i.e., there must be capacity to handle the policy instruments. A regional objective such as “a distribution of regional income characterized by equal shares for labour and capital” may imply —as an action— a specific tax policy; if the objective is to have any real meaning, the region must in this case exercise control over the policy instruments — for example, it should have the capacity to establish a tax on capital. Otherwise, the objective —from the standpoint of the region’s decision-making capacity— will be of no value, since it will be nothing but a declaration of good intentions.

It might well be asked, then, what is the point of establishing an objective for a region, such as attaining a growth rate for the product of 5.3% annually, which is a typical example of the kind of objective met with in practice? Leaving aside the fact that this is not really a correctly defined objective, let us ask ourselves what degree of control has any region over the ultimate determinants of growth?

As noted earlier, the regions’ area of control is usually very small, which to a large extent casts doubts on the possibility of endogenously determining regional objectives. It also implies that there would be no point in establishing the quantitative counterpart of the objectives, i.e., targets. This does not mean, however, that there are no regional objectives or targets; the problem lies not in whether they exist or not but in who has the actual capacity to determine them. In fact, objectives and goals will always exist and will always be established for each region. This will not be the exclusive responsibility of each region, however, but of a different decision-making authority.

Gutiérrez, Ortiz and Villamil reach a similar conclusion in their study on the planning of open systems when they state the following: “This analysis raises the need, in the planning of open systems, for the objectives to be multiple rather than unidimensional. The objectives should not only optimize in terms of some economic variables, but should also endeavour to reduce the degree of uncertainty of the system, by replacing, wherever possible, uncontrollable variables by other variables that can be controlled” (Gutiérrez, Ortiz, Villamil, op. cit.).

Let us assume that, as often happens, the above situation is disregarded and in preparing the regional plan a good deal of energy is consumed in establishing objectives and goals. For example, it is affirmed that the region should double the growth rate of the product over a certain period by means of an industrial expansion programme. Apart from the fact that this is doubtless outside the scope of the region’s control, what would happen if the adjacent region were to set the same target? Are the two situations compatible in terms of the use of scarce resources or the size of the markets? What would happen if not two, but six or even nine regions made similar proposals?

Since a problem of this kind must necessarily have a consistent solution, this could take the form of an ex post adjustment, i.e., using the resources as far as they will go and meeting the requirements of the regions with the most political power by pressing for the allocation of resources. This solution is clearly the antithesis of planning and in no way benefits the neediest regions; it is also an inefficient solution if the criteria of regional efficiency now in vogue are accepted.

The alternative solution is to use a supraregional level of authority to arbitrate a rational solution. This is precisely one of the main functions of the national regional plan or the regional development strategy at the
national level and, therefore, of the central regional planning agency. The need to settle this kind of conflict at a supraregional and interregional decision-making level may be substantiated on very solid grounds by invoking some fundamental postulates of systems theory or the more traditional concepts of external economic elements within the framework of a concept of general equilibrium.

In any regional development strategy or plan at the national level the following factors are determined outside the region: (i) the region's objectives, particularly in connexion with its expected contribution towards attaining the most important national objectives; (ii) the regional global growth targets, sectoral goals and corresponding investment funds; (iii) the region's role in the national development process, deriving from the first two points. This role (or "scenario", in the language of MPCRD, developed by UNCRD) may —in aggregate terms— be positive if it means greater importance for the region in the national context than in the past, moderate if it means keeping the region's relative importance at the same level, or negative if it means a decline in the region's relative role. Here again a distinction must be made between absolute and relative situations, since a negative role could nevertheless mean absolute regional growth.

If it is considered that, in actual fact, a number of different roles are assigned to the region, we find —to make a sociological analogy— that what is really being defined is the regional status. This definition of regional status replaces or is a substitute for a traditional stage of the planning process: the establishment of objectives and goals.

Since the assignment of the region's status presupposes a fairly passive position on the part of the region, there are here less clearly defined activities to be carried out by the working group concerned with preparing the regional plan. However, the assignment or establishment of the region's status is not as unilateral as might be thought at first sight. The objectives, goals and resources assigned to each region in the national-level regional development plan or strategy involve an iterative process (short or long) with information feedback between the local planning bodies and the central regional planning agency.

Regional status may be defined either more or less explicitly, depending on the formal approach adopted to the question of regional planning at the national level.

If a true regional development plan has been prepared at the national level, the information on the objectives, goals, policies, programmes and projects envisaged for the region will be highly detailed and regional action will be practically confined to comparing the analysis of its own situation (as derived from the diagnosis) with the proposals contained in the interregional plan and, if no major differences are observable, supporting the process to be followed as regards the implementation of programmes and projects. This situation seldom arises, however, what generally happens is that the treatment of regional problems at the national level is expressed in documents which are along considerably more general lines, in the form of policy "guidelines" or development "strategies".

What role does the image-objective of the region play in the above context? If image-objective is understood to mean a voluntaristic model of the real situation subject to planning (the region), it is clear that such a model would be characterized by: (i) the "state" of the variables it includes (the objectives); (ii) their consistency (rationality of the image); and (iii) the implicit strategy for attaining the image (viability of the image).

Once again it may be observed that this basic component of traditional planning, i.e., the image-objective, becomes a less important element in the context of the planning of a region. It is useful in any case to prepare an image-objective for the region, but its role will be reduced to helping to identify the
agents of the environment rather than becoming the rule which conditions (and is conditioned by) the strategy. The regional status or scenario is a more useful concept than that of the image-objective, at least from the operational point of view.

IV
Some political aspects of the planning of a single region

Any planning action is both a technical and a political activity. Since this view is universally accepted today, the following question might be asked: what is new about putting forward this position in the context of the planning of a region? There are two answers to this question.

Firstly, in bringing to light the political aspects of the planning process in a region, this makes it easier to analyze the conflicts, transactions and agreements which exist, not in society as a whole, but within its technobureaucratic system, or more precisely within the public administration apparatus.

"The invested interests of existing government agencies, particularly national agencies, will usually be deeply rooted and at times may be more of an impediment (to the plan) than the opposition of political or private power interests. An unco-operative attitude (on the part of such agencies) may be expected because first, the regional planning and development agency tends to be considered an instrument that will reduce the powers of the existing agencies, and second, the jurisdictions of regional organizations of the other government agencies generally do not coincide with those designed for the regional plan" (Mayne, 1973).

The above quotation is emphatic in pointing out the political problem faced by regional planning within the administration itself. This does not, of course, mean ignoring the fact that a regional development plan will often arouse strong political opposition from other sectors not directly linked to the government, but that occurs in a much broader context on which a great deal of literature exists. The more restricted but no less important problem of the battle, inter pares, between national agencies and executives on the one hand and regional agencies and executives on the other has been given much less attention by the specialists. There is here, then, an element which distinguishes between the way "politics" enters into global planning and regional planning.

Secondly, it is a fact that regional planning (on a national scale) can be used, explicitly or implicitly, for two completely opposite political purposes, to which the planner cannot be indifferent. Thus, regional planning at the national level can be used as yet another liturgical element in the cult of centralization and State control, consequently helping to create an essentially anti-democratic society, but it can also be used as an element for the democratization of society, to the extent that it is associated with clearly defined and realistic schemes for the territorial decentralization of the decision-making power. No matter how the concept of democracy is defined, there is no doubt that it is associated with a universal possibility of acceding to the generation of power and to power itself, if not in strictly individual terms, at least through organizations intermediate between the individual person and the State. The region is precisely such an organization.

The following are some interesting comments on how a regional planning system can be used for essentially anti-democratic purposes, even in what may be considered a showcase democracy:

"A religion, the State, whose hallowed
name covers the whole country. And, inevitably, the organization most suited to this entity: military-style centralization. France obeys a Headquarters: Paris. In Paris all the information is collected, together all the country's movements are charted on a map as if they were troop movements; from Paris are issued all the orders and directives given by the General Staff; the ministers, whose appointments are approved by the commander-in-chief, the President of the Republic, address themselves to their generals, the Prefects, who entrust the execution of the orders and directives to officers of different ranks: colonels (the so-called high government officials), majors, captains, etc.; while in the lower echelons, there are innumerable non-commissioned officers and minor officials of all categories” (quoted by Servan-Schreiber, 1971).

The same well-known French journalist and political figure adds the following:

“The Government is well aware of the demands for local freedoms that are making themselves heard throughout the country and tries to create an illusion of a response by means of what it calls 'déconcentration'. The confusion is skilfully maintained.

'Déconcentration means the measures aimed at transferring to local government officials certain powers that were formerly assigned to a ministry; their real effect, however, is to increase powers of the Prefects.

'Decentralization, in contrast, tends to bring about a redistribution of democratic power from the State to the local communities. The difference is obvious. On the one hand, the delegation of signature powers to a government official is a matter which concerns neither the citizens nor the elected local representatives; on the other hand, the strengthening of rights linked with the legitimacy deriving from universal suffrage is a matter which directly concerns us all” (Servan-Schreiber, 1971).

There can be no doubt whatever that the whole question of “centralization versus decentralization” is of basic importance in regional planning. In a matter of this kind, however, care must be taken to avoid romantic, idealistic positions which sometimes simply hide an attack on the role of the State as a development promoting agent.

Both the centralization of the decision-making process (in the public sector) and the territorial and functional decentralization of the process have their merits and disadvantages. One role of regional planning which is a challenge to regional planners, is precisely that of determining the point of equilibrium that will preserve the necessary degree of centralization in certain decisions and the no less necessary degree of decentralization which must be introduced into the system to make it more democratic.

It would be presumptuous, as well as completely outside the scope of this paper, to enter into a detailed analysis of the factors leading to a high level of centralization, but mention must be made at least of some of the most obvious ones.

In the first place, it may be observed that territorial centralization of the decision-making apparatus is the logical and necessary counterpart of the process of territorial concentration of the production process. Since the latter is virtually a necessary condition for growth, centralization is almost inevitable.

Of even greater importance, perhaps, is the relationship between centralization and national unity. Many of the developing countries are still in the nation-building stage, and consolidation of this process requires a strong central power (would it be possible to conceive of modern France without reference to the overwhelming power of Louis XIII, Louis XIV and Richelieu?), capable of imposing its will over tribalism and regionalism of a distinctly separatist nature. To some extent, today's centralization is the price of national unity.

From an essentially technical angle, two other factors may be added which operate in favour of the centralizing trends. On the one hand, technical progress has tended to broaden the scale of decisions so that many
decisions connected with investment projects, both in the infrastructure and in directly productive sectors, go beyond the local, provincial or regional scale and are thus converted into interregional or national decisions (for example, a large-scale hydroelectric plant). Clearly, such decision-making scales involve centralized decisions which can at least internalize for the system their possible external factors. On the other hand, the theoretical and empirical recognition of the systemic nature of the whole set of regions again makes it necessary to transfer the capacity for guiding the system (decision-making powers) to higher government levels, that is to say, centralization is necessary in order to optimize the running of the whole system. This, however, is an argument which should not be carried too far. It is quite possible, by means of multi-level planning systems, to find intermediate points corresponding to semi-decentralized systems; what happens in practice, however, is that it is “easier” to centralize than to operate a multiple system.

How, then, can we avoid an excessive degree of centralization? What progress can be made towards decentralization without jeopardizing national unity and a given level of efficiency? What is the regional answer to centralization? Is its aim simply to secure a larger share of power?

A possible answer to this type of question is given by Stöhr and Tödtling in their proposed “selective spatial closure” strategy. The basic issue raised by them is how the regions can defend themselves from centralized answers (to the specific problems of a region) which—in these authors’ opinion—are necessarily stereotyped, not functional in relation to the region’s real requirements and, consequently, socially disruptive. According to Stöhr and Tödtling, the centre’s typical answer is biased in the sense of: (i) basing itself on concepts of neoclassical economic analysis; (ii) basing itself heavily on large-scale vertically organized institutions, either public or private; (iii) relying excessively on market mechanisms and formal institutional processes; and (iv) placing excessive emphasis on economic achievements and material aspects.

On the basis of the above considerations, the authors propose a regional strategy aimed at “closing” the regions, including measures in the field of supply and demand and policy instruments to modify the friction caused by distance and redistribute the effects of the economies of scale and external economies (Stöhr and Tödtling, op. cit.).

A prerequisite of this strategy, as noted by the authors, is a transfer of decision-making capacity from the predominantly functional or vertical units (sectors) to the horizontal (territorial) units at various levels. This prerequisite seems somewhat unrealistic in practice, at any rate in the short term, since there appears to be no reason whatever for the national institutions to surrender part of their real power to territorial organizations. A full analysis of this type of strategy was made by Hilhorst in his comments on the above-mentioned study (Hilhorst, 1977).

Even though the transfer of power to territorial organizations seems impracticable, however, it may be possible to strengthen the regional power by means of alternative mechanisms and perhaps arrive indirectly at similar results to those pursued by Stöhr and Tödtling. This is precisely the aim of the strategy of maximizing the regional bargaining power.

V Regional negotiation strategy

If the central purpose of the planning process of a region is to strengthen the regional bargaining power vis-à-vis the agents of the parametric environment, ques-
tions such as the following must be answered: Who negotiates or who conducts the process on behalf of the region? What is negotiated with each agent? What practical measures can be taken to provide the poorest regions with the indispensable technical know-how to back up the negotiation?

The bargaining process must, of course, be conducted by the regional political authority. This simple statement, however, involves a number of complex issues.

A step prior to the establishment of formal negotiating machinery is to imbue the community with a sense of regional identity, i.e., a collective sense of belonging to a geographical entity characterized by common cultural forms and territorial loyalties. This is essential for establishing regional legitimacy, without which a process of regional negotiation cannot be established.

As might be guessed, the previous paragraph points directly at the definition of a region as a basic condition for it to be able to negotiate, or for the negotiation really to represent the region, as a social entity, instead of representing only the thinking of planners. We will not go any further into this subject, which has in any case been thoroughly analysed, but it is necessary to stress the importance of how a region should be defined, and also to remember the many examples of the failure of regionalization processes which have overlooked the problems of regional identity.

"The legitimacy of the institutions and authority of a government are necessary means for achieving a substantive aim, a social programme or project that will arouse a national society's will to change. Without this, planning may be a fascinating scientific discipline but it will not be linked with the political action of the State" (Botana, quoted by Boeninger, 1976).

An indispensable condition for establishing a process of negotiation is the existence of the will of the parties concerned to negotiate. It is assumed that the region has a genuine desire to negotiate, but is this so in the case of the other parties, the government, enterprises, etc.? It seems clear that a negotiation process such as that proposed means that it must take place within a certain political system. In view of the unequal power relationship between the region and the government, for example, the latter will only be willing to negotiate when the implicit cost-benefit ratio of the negotiation is higher than that of the use of authoritarian force. This situation may derive from a doctrinal conviction (democracy) or from tactical considerations (even the strongest and most authoritarian governments consider it best, on occasions, to avoid forcible solutions). However, not only is the will to negotiate required in order for the negotiation to take place; it is also necessary to define a common area of transaction for all the agents of the parametric environment, in the light of the set of resources, interests and symbols possessed by each negotiating party.

The task of defining this area will once again fall mainly on the region, as the principal party interested in negotiating. Unfortunately, negotiating techniques are still in their infancy (except for the games theory in certain cases), so there is no clear guide for conducting the negotiations, nor for solving deadlock situations, except in a few particular cases (Isard and Smith, 1976).

An important question here is that of the regional authority's representativeness for conducting the negotiation process. Who does the regional authority represent? If the authority is elected, the representativeness derives from an electoral consensus and the higher the consensus the higher the representativeness, but if the authority is appointed, either through an established institutional mechanism or by ad hoc procedures, this power must be legitimized in the eyes of the regional community. It should be remembered that in any country with a unitary system of government, the regional authority is designated by the Executive and represents the Executive in the region; this must be altered so that the authority also represents the region in its relations with the
Executive, which is something that cannot be achieved by decree.

The basis of legitimacy and structure of power of the political system affects the nature and possibilities of the plan, not only because they help to create inequalities in the capacity of the various social agents to acquire or maintain their status as such agents (Boeninger, op. cit.), but because they directly affect the capacity to influence the (exogenous) adoption of decisions.

One way of increasing the representativeness of the authority or legitimizing its power may be sought through the social activation of the region, i.e., through the region’s incorporation into the whole planning process (it will be remembered that we already mentioned this point in the diagnosis) and its consequent mobilization in support of its authorities (not necessarily through the use of pressure mechanisms). What is required is activation on the basis of a dialogue and the pursuit of a common destiny for the region, and no regional group can be excluded from this dialogue. Regional development councils, if they exist, can be of valuable assistance in social activation, provided that they are also truly representative.

"A plan which calls for mobilization must also be capable of channeling the consequent participation, and this involves the complex task of setting up social organizations capable of co-ordinating the demands of the mobilized agents, while it also entails establishing a harmonious relationship between their aspirations and the goals envisaged in the plan. This requirement is, in its turn, linked with the reconciliation of political intermediary organizations (generally political parties) and bodies responsible for corporate representation and, in a different perspective, with the relations between the ruling elites or minorities and the broad masses at the social base" (Boeninger, op. cit.).

Enhancing the level of representativeness of the regional authority is also imperative in order to facilitate its access to the central decision-making level. There is a big difference between dealing with the Minister of Finance when backed by a powerful and cohesive regional movement and dealing with him when backed only by one’s official title. Even so, political support alone is not very effective in negotiating if at the same time the regional negotiator lacks technical arguments.

"Persuasion and the social pact or contract, backed by the accumulated weight of technical experience and the utilization to the full, as a power resource, of the prestige provided by scientific knowledge, are perhaps the most effective instruments in a basically consensual society" (Boeninger, op. cit.).

The second question in relation to regional negotiation is what can be negotiated and how. This will usually depend on the nature of the agent of the parametric environment with whom the negotiation is to take place.

Before specifying what can be negotiated with each agent, the region should prepare a general scheme of negotiation. This involves defining a regional model, in this case strongly conditioned by factors outside the region. In the definition of this model three groups of factors will be considered: (i) the results of the diagnosis, particularly those connected with the identification of the region’s potentialities; (ii) the projects under way in the region and new ideas for projects —with differing degrees of precision— which have emerged from the diagnosis itself, and (iii) information on objectives, policies, programmes and projects contained in what has been called regional status, i.e., information on the national-level regional development plan or strategy.

The roles of the region, growth targets, general and specific policies (for the region), national projects which will definitely or probably be located in the region, regional development potential, projects of regional origin, and the changes envisaged in regional macroeconomic variables such as
income, employment and the use of space (including the rate and form of urbanization) constitute some factors and elements which should be incorporated in the construction of the regional model to provide a coherent basis for the negotiation process.

Let us now see what happens in the case of the agents with whom the region negotiates. We will begin with the national government, which is usually the principal agent. Assuming, as above, that investment in directly productive activities is carried out, in the case of the public sector, by public enterprises, the concept of the national government used here is close to the concept of the fiscal sector.

The region can negotiate with the national government in the first place on the question of the territorial modification of some economic policies and some economic policy instruments, i.e., the regionalization of economic policies, on which point the following comments are worth reproducing:

"One of the essential features of any developing country is the marked heterogeneity of its economic and social structures. Computation centres and nuclear power stations go side by side with an agriculture in which the driving force is still provided mainly by human beings and draft animals. Ultramodern cities are surrounded by belts of poverty, élite intellectual groups exist at the same time as high percentages of illiteracy, abysmal differences in income occur between sectors and persons, there is no "spatial friction" for high-income groups in contrast with the absolute geographical immobility of the majority, etc. In other words, this fits in with the well-known journalistic picture of underdevelopment in Latin America.

"Faced with this situation —represented here in extreme form— the economic planners and those who are in general responsible for the conduct of economic policy have gradually become aware of a phenomenon which was largely unnoticed in the past, namely, that the great majority of the usual instruments of economic policy, such as taxes, subsidies, exchange rates and others of the kind, were designed to operate in economic and social situations with a high degree of homogeneity, typical of more or less comparable conditions, characteristic in their turn of well-integrated and developed economies. Very different is the economic and social milieu of the developing countries, characterized in part, on the one hand, as described above, by important heterogeneous features, and on the other by monopolistic structures. It should be quite obvious that in this case averages, which serve as a basis for the aggregate use of economic policy instruments, are quite inadequate to convey the situation and consequently constitute an inefficient basis for economic decision-making. What is more, the administration of a country on the basis of averages and homogeneous measures tends to become confined to the administration of the more developed regions, thus speeding up the cumulative process of concentration.

"In conditions of extreme heterogeneity a case could almost be made for the use of practically individual economic policy instruments, but obviously this is not feasible and consequently it is the region which becomes an efficient geographic and economic unit for the administration of an economic policy based somewhere between the inefficiency and injustice of a homogeneous aggregate and the impossibility of complete differentiation." (Boisier, 1976, b.)

The foregoing considerations lead to the conclusion that the regions, and particularly the less developed ones, must equip themselves to negotiate with the national government an efficient means of territorial differentiation in the application of certain economic policy instruments.
To achieve this, the regional negotiating authority must be able to convince the central economic authorities, on a technical basis, that a mechanism of territorial differentiation will not affect the attainment of the overall objectives envisaged in the use of a given economic policy instrument. Moreover, it must show that the benefits deriving from a measure of this kind would outweigh the higher administrative costs of its application and control.

It is quite possible that a proposal of this kind would be resisted by the economic authorities owing to its apparent complexity. The fact is, however, that there is already differentiation in not a few aspects of economic administration (tax rates, tariffs, etc.) and there is no good reason why this experience should not be put at the service of the regions.

An interesting example of how policies of a homogeneous type come to favour sectors, groups or individuals different from those who were presumably the original object of the policy occurs in the field of public education. For many years it was maintained that primary education should be free of charge in order to give effect to the principle of equality of opportunity, and this principle served as the banner of not a few political campaigns. Later it was demonstrated (thanks to the economists) that if the distribution of wealth and income is regressive, free education comes to be a subsidy for pupils from better-off families, since those who come from poorer families cannot remain within the school system. Thus, in an initial very heterogeneous situation (income distribution in this case) and in the absence of lateral compensatory mechanisms (scholarships, for example), a policy conceived as an impartial and impersonal measure for all comes to favour in the end the very people who do not require help.

In the second place, the region can negotiate with the national government to define a set of location decisions related to investment projects contemplated in sectoral plans. The reasons for this are as follows:

The development strategies and plans of the sectoral planning agencies currently include more or less complete lists of investment projects. Here it is important to note that, with the exception of energy and mining projects and certain agricultural projects whose location is predetermined by the existence of resources, there still remains a very large group of projects, particularly those of an industrial, nature, whose location admits of a considerable degree of freedom.

With the background and analysis provided by the diagnosis, and after studying the list of sectoral projects, a region might put forward a list of the locational elements which the region has to offer for each project (regional inputs, regional markets, energy, manpower, infrastructure, etc.) so as to start a kind of interregional competition (a sort of public bidding) to obtain the assignment of such projects. It is worth recalling that this competition actually takes place every day, but based entirely on positions of force. The idea in this case is to replace this contest of strength (which is naturally always won by the most powerful regions) by a rational competition on technical bases. A noteworthy example of the use of this mechanism is the petrochemical complex at Bahia (Brazil).

On the other hand, care must be taken to see that this interregional competition for projects does not become a regular “auction” in which each region strives to beat the offer of other regions, no matter what the cost. This might end by benefiting only the private sector (national and transnational enterprises) while the region which “wins” the tender gets none of the potential benefits envisaged. Concrete examples of this could be cited in various Latin American countries.

In the third place, the region can negotiate with the national government to secure the modification of administrative procedures which might be hampering the ac-
celeration of regional growth. This relates almost entirely to bureaucratic processes, where a balance must be obtained between the necessary centralization of some decisional aspects and the no less necessary territorial decentralization of other aspects of such processes. The examples which might be quoted are too well known and numerous to be repeated, but in any case it would seem that decentralization of the public budget should have some priority in this respect.

Finally, both the regional allocation of public investment in infrastructure and social facilities and the current government expenditure on wages, purchase of materials, etc. are also areas in which the region may negotiate.

The second most important agent in the regional environment may be that made up of the public enterprises, whether or not located in the region. With regard to these enterprises, the negotiation will include discussions on the possibilities of an increase in production (subject to market conditions), new investments, and especially the greater economic and technological integration of these enterprises in the regional economy. Why does this or that enterprise buy a good part of its inputs outside the region when equivalent inputs are available in the region? Why are certain advisory services contracted outside the region, when similar regional services exist? This situation sometimes derives from mere administrative routines and not from fundamental causes. This type of question should be formulated by the regional working team in order to be able to present viable alternatives to those with whom they are negotiating. No less important in this case is the discussion of the selection of technologies by public enterprises and their impact on regional employment.

Similar negotiations may be carried on with the national and foreign private enterprises and the private institutions of the financial sector.

The external market (both national and international) can represent an agent of considerable importance for the region, especially if the region in question has a clear export potential. The difficulty in negotiating with an agent like this lies in its diffused character, but an effort may be made, first, to identify the location of the external markets for each of the principal export products of the region (if a regional product has national importance as an exportable commodity, its market situation will doubtless be handled by the national government or by large companies) and, secondly, to identify the main marketing systems (companies specializing in international trade or in wholesale national distribution) with which negotiations might be started to increase regional exports.

What can the region offer in these negotiations? This is a crucial question difficult to answer. The region does not, as a rule, possess material assets which could be traded, but it does have some non-material elements which are of interest to the agents on the other side.

To the national government and the public enterprises the region may offer the possibility of rationalization of the pressurizing process (which in the long run becomes intolerable to governments) and the attraction of more efficient use of national resources. After all, one must not forget that many of the efforts made on behalf of regional development are aimed at providing ad-hoc solutions in response to political pressures expressed in various ways.

Additionally, in certain cases the sheer reasonableness brought out in the regional diagnosis might enable the region to show the central government that the apparent subsidy to the region (as a simple difference between regional receipts and public expenditure) might be transformed in the medium term into a profitable deal for the State, if the flow of financial resources were put to more practical use than in the past. At the same time, the regional diagnosis might help to establish such important
points as the reduced cost of a process of productive and administrative deconcentration, in contrast to prevailing beliefs on the subject.

For the national and foreign private enterprises, associating themselves with a regional development process would give them the opportunity of improving their public image (a very important aspect, particularly for the large international corporations), and creating a better climate for business and for establishing good labour relations: in short, a more stable and favourable atmosphere for their own development.

In every case it is most important to make an effort to define the common ground for bargaining, i.e., what can be offered and what can reasonably be demanded by each agent.

If it is possible to carry through the negotiating process, the region will have at its disposal a set of commitments and decisions pertaining to each agent in the parametric environment. Some of these commitments and decisions will be more concrete and specific than others. It will be useful at this stage to prepare a list of the results of all the negotiations, identifying in each case the agent involved in each result and the time sequence envisaged for each action or for each preparatory step towards it.

VI

Following-up the commitments and actions

The main task of the regional planners will henceforth be to follow up the execution of this set of decisions. The monitoring and consequent assessment of the implementation of the decisions must be regarded not as a sporadic process involving an analysis every three or six months, but as a continuing daily process, and the information about it should be constantly fed back to the regional authority. The regional authority's role of negotiator does not end with the previous stage: its work is not over when the commitments and decisions have been secured. It is also a continuing role which now implies daily inter-agency co-ordination and continuing negotiation with the agents of the parametric environment to settle problems of delays, lack of implementation, and other matters.

Obviously in this process of negotiated planning the "plan" as a formal document is of less importance, while the monitoring instruments and processes assume supreme importance. It is thus the process of negotiation and monitoring which constitutes the outstanding feature of this mode of planning.

In view of the importance of the monitoring aspect in this planning process, the capacity of the executive machinery of the region consequently becomes decisive for the success or failure of the whole process. On this point, with reference to the case of the State of Minas Gerais (Brazil), a specialist who is similarly dissatisfied with the traditional forms of planning writes:

"The implementation of a planned policy which has been politically approved requires the existence of an executive agency and of a plan which is sufficiently detailed to be put into effect.

"In a market economy, where most of the decisions on production are taken by the private sector, the action of the State is basically aimed at inducing private activity. Apart from correcting market deficiencies, the public sector tries to take action which will be simplified or multiplied by the response of the private sector.

"This inductive character may be negative or positive, just as the errors and defects of an inefficient public mechanism become amplified in the same way..."
as the positive effects of an efficient mechanism.

"What is sought is on the one hand to correct market deficiencies and on the other to obtain a multiplier effect of public action on private activity.

"The high sensitivity of the private sector to public action makes it necessary to seek maximum efficiency of the latter, especially in the case of a regional economy where most of the policy instruments affecting private activity are in the hands of the central power.

"When the planning activity is initiated, the new forms of rationality which it is sought to establish come up against the traditional obstacles to decision-making within the public machinery. The past performance of the latter has by no means been devoid of merit, and in many cases high levels of efficiency have been attained by executive agencies or units. When an attempt is made to impose a broader rationality — in keeping with a global outlook — incorporating elements which are normally beyond the scope of these units, however, sources of tension arise which need to be resolved in order to achieve the proper development of the plan.

"The public machinery, for its part, is not a monolithic system responsible hierarchically to the summit where policy decisions are made, but is responsible rather to a group of centres seeking a negotiated equilibrium. This gives agility and creativity to the public sector and therefore to the executive process, but it can also create great difficulties which have to be foreseen and forestalled.

"Among the most important factors which condition the capacity of the public machinery the following should be mentioned: (a) the leadership capacity of the political decision-making centres; (b) the technical capacity of the group; (c) its endowment of resources; (d) its organization and the instruments at the disposal of the political decision-making centre to activate the public machine in the execution of the plan.

"The process of change of the historic modes of decision-making into planned forms requires a great capacity for leadership in order to secure agreements and negotiate new forms of equilibrium which enable the potential of the public machinery to be mobilized for the execution of the plan. The plan cannot be made into a rigid normative instrument which is imposed hierarchically, but must be understood, assimilated, and supported by the executive units, and this requires a great effort of persuasion and leadership.

"The public machinery must have the technical capacity to complete the final draft of the development plan, adequately formulating programmes and projects, or it should have the technical capacity to contract these studies. The public sector should also be prepared to carry out the stage of execution, either with its own resources or through contracts.

"Normally the technical capacity of the public machinery is consistent with the characteristics of the non-planned development of the past, with some sectors at a very high level — such as usually the sector of physical infrastructure and energy — and with a very low level in those sectors generally left behind in spontaneous development. When the planning process attempts to correct these sectoral imbalances, the technically weaker sectors inevitably call for greater efforts, especially in the formulation of programmes and projects. If this situation is not realized in advance and measures are not taken to increase their technical capacity, it will not be possible to invest the new resources which may be allocated in these sectors, in contrast with the situation in the sectors with
traditionally higher capacity. This situation only strengthens the historical imbalances which the aim is to correct, instead of eliminating them.

"This type of problems is not very noticeable in a very conservative planning system, where the sectoral imbalances are acknowledged in the plan and no solution is proposed for them, but matters are different in the case of development programmes basically designed to correct the imbalances of historic growth. It goes without saying that the financial resources required for the operation of the public machinery and the execution of the plan must be strictly equated to the needs of the programme.

"Nevertheless, it is usual to find that the plan is obstructed and hampered by the current budgetary procedures. This is easily understandable if one takes into account the relative antiquity of budgetary procedures compared with planning techniques.

"Traditionally, and almost universally, the budgetary estimates are prepared on an annual basis, but normally a plan requires the commitment of resources for a longer period. In a situation where the budget is a fundamental tool for financial administration this can easily give rise to conflict between the financial policies and the development policy proposed in the plan. There is thus an imperative necessity for close collaboration between the financial and the planning authorities.

"Even when leadership capacity, financial resources and technical experts are available it is important also that the organization of the public sector should be equal to the tasks involved in disaggregating and executing the plan. This form of organization should permit an adequate flow of information from the summit to the base and vice versa and should be based on a hierarchical structure of decision-making in line

with the conception of systems and subsystems (programmes, subprogrammes and projects) into which the plan has been disaggregated.

"The summit of this system should have action mechanisms effective and speedy enough to be able to carry out the plan satisfactorily in the face of distortions and reactions in the different elements of the system. These mechanisms may cover legal, administrative, financial, information, co-ordination, advisory and other aspects, and their existence and characteristics are the basic condition for effective control of the execution of the plan." (Calderón, 1976.)

The process as described so far is not simple, but neither is it beyond the capacity of a reasonably well trained team, always provided that the political authority of the region is genuinely involved in the experiment. After all, negotiation is a familiar process, perhaps usually less systematic and formal, but nevertheless involving a similar procedure. One may indeed quote some concrete and successful experiments, as, for example, the way in which the development of the State of Bahia in Brazil has been approached, and about which a specialist writes as follows:

"The viability of the strategic concept of regional development depends in great part on the realism timeliness with which the interrelations between the regional and the national economy are handled. In countries like Brazil, endowed with extraordinarily dynamic growth, transitory economic changes are very frequent, compelling the region to develop its own analytical capacity and mechanisms to ensure a swift and timely political intervention. This is essential if the region is to take advantage of the dynamic factors of exogenous growth and avoid as far as possible the depressive effects which frequently accompany foreign investments within a model of dependent growth."
"In practice, within this type of model, the actions of the public and private peripheral sectors consists essentially of responses or reactions to actions deriving from the centre. This does not necessarily mean, however, that the response cannot be creative or innovative in so far as they are realistic and are based on the capacity to take advantage of the opportunities occasionally provided by the development of the centre.

"The possibility of creating this dialectic capacity in underdeveloped regions of countries which are themselves underdeveloped might seem Utopian if it were not that the lack of poltical rationality need not necessarily stem from underdevelopment. The existence of economic liberation processes in countries which were originally capitalized by foreign investment and, on another level, experiments such as that of the petrochemical industry in Bahia, indicate that it is possible, though admittedly by no means easy, to give rise to growing processes of economic autonomy beginning from investment concentrations generated by external factors.

"To make all this possible, however, it is necessary to introduce institutional changes in the technical and administrative procedures of the region. In the first place, it will be necessary to provide the region with a permanent capacity for analysing the regional economy and the national situation. There is no development plan or economic diagnosis which does not have to be systematically and periodically revised in order to be adapted to the dynamic nature of development. Regional development strategy needs a modern information system and instruments of analysis. The underdeveloped regions do not possess, for example, systems of social accounting, nor means for the regional quantification of economic and social phenomena. Generally the scanty information available has such a low level of synthesis that it is practically useless for a study of the internal situation of the region. It is interesting to note that the degree of synthesis of information is always related to the interest of the user and therefore the present supply of statistics is determined by the interest of the centre and not of the region.

"The establishment of institutions responsible for information and regional economic analysis is therefore indispensable for the preparation, execution and continuous revision of a regional development strategy such as that which is suggested here.

"It will also be necessary to introduce institutional reforms in the sphere of administration to raise the capacity of political intervention in questions as important as the central decisions which affect the region, the reinvestment within the region of the product generated there, the generation of strategic projects, the location of economic activity and the internal market. It will also be necessary to achieve greater political continuity and to expand the basis of participation in the processes of political decision-making, production and consumption. The incorporation of the local elite and of an ever-increasing labour force, the training of local personnel and the stimulation of the development of regional technical services are ways of achieving greater integration and of promoting the growth of local capacity for initiative and identification with the region.

"In many respects regional development is a conflict of interests between a powerful centre and a periphery which needs to unite all its forces for an unequal battle. Only the integration of local capacities and a real sense of regional identity can produce the conditions for success. This is especially the
case in strategic projects, which it would be difficult for technical groups from outside the region to identify and study. For this reason it is imperative to carry out the systematic training of technical cadres both in the public sector and in private enterprise. The development of a region in the present conditions requires a system of intellectual support formed by the technical-political elite of the government, the university and local firms of consultants. To create the conditions for the development of this system is one of the main responsibilities of the public sector in the field of development.

"In addition to increasing efficiency in the formulation of political options (regional analysis) and in the capacity for political action on the part of the administration, it will also be necessary to initiate a gradual process of improvement in the internal administrative system and the methods and procedures used in it. A programme of this type is essential to ensure that the reforms that might result from the two levels of action previously mentioned are consolidated in permanent form by the regional administration. The remodeling of the administrative machinery of the region is always a lengthy process which needs continual renewal to adapt itself to the strategy. It may be that a start should be made with the programming system, beginning with the conversion of the general terms of the development strategy into sectoral goals and programmes at the level of the whole State (government programme), integrated in spatial programmes (microregions). In the case of Bahia, the Reconcavo area must be considered as a priority sub-region where, as a preliminary hypothesis, public sector investments should initially be concentrated. The budget should be prepared on the basis of a preliminary definition of programmes and the availability of resources. The coordination of the execution of programmes and projects should constitute a parallel sub-system in the hand of coordinating units in the central and decentralized executive agencies of the public sector. Finally, another sub-system, that of assessment, should analyse the achievements of the programmes and projects at the end of each accounting period in order to incorporate the actual results of the process into the future programming.

"All these tasks are of course difficult to carry out and require trained and psychologically motivated personnel. But the difficulties should not be a reason for abandoning the effort to rationalize the development process, especially considering that this effort is one of the few instruments that can be used to achieve regional objectives and goals which otherwise would depend on the free play of external forces and the emergence of spontaneous solutions. Past experience provides enough examples to show that this form of development is far from efficient and cannot always ensure regional development even though there may be growth." (Neira, 1972.)

How could the technical capacity of the team entrusted with the planning of a region be improved in practice? Or how could a region be endowed with a qualified technical team? It is unquestionable that "negotiated" regional planning requires trained personnel, and it is undeniable that in some cases certain regions face serious difficulties in this connexion. Various alternative measures may be suggested to deal with this problem.

One way of endowing the neediest regions with technical capacity is to use the system of international technical co-operation, whether multilateral or bilateral. There is no doubt that organizations such as the United Nations and others of the kind have highly-trained personnel and are well placed to assist the regions in this sort of task,
which is perhaps potentially more fruitful than advisory services supplied to governments at a very general level. In the case of Latin America, the Latin American Institute for Economic and Social Planning (ILPES) has carried out extensive and valuable work in this field. This type of assistance naturally requires the authorization of the central governments and therefore once again there is a need for the will to negotiate subsequently with the region.

Another and extremely interesting possibility is the agreement of all the regions to create some type of institutional mechanism which represents the interests of the regional system vis-à-vis the Nation, and can consequently supply technical assistance to specific regions. One of the most interesting practical examples of this is the Federal Investment Council of Argentina. This Council was set up by resolution of the Ministers of Finance of the Provinces of Argentina in 1959 and represents a political agreement between the Provinces which does not include the Nation (although it could do so).

Following a similar line of interregional co-operation, coalitions of two or more regions with relatively complementary interests could be formed. Such coalitions would improve the regional bargaining power in negotiations and permit the formation of technical teams combining the best human resources available. “It seems evident that, except in the most obstinate cases, the more the members of a group can put forward and maintain a common position in their negotiation with other groups, the stronger will be their bargaining power. This principle not only applies to the constitution and organization of local groups as part of the distribution process, but also to the agreements between “competing” groups acting at the interregional or national level on the basis of which they can decide to divide the market between them or offer common prices or conditions”. (Dunham, op. cit.)

The method and procedure of “negotiated” regional planning proposed and developed in the foregoing pages is not a magic formula of universal application. There are some cases in which it is not suitable, but it may be very useful if not in most cases, at least in a good number of practical situations. Each region and each situation has its individual features, and the general scheme will therefore need to be adapted to each concrete situation. We do hope, however, that it will provide a more viable, practical and direct reply to the challenging questions: How do I prepare a regional plan?

“There will be rightist opponents who say that the people are incapable of learning, or that they do not wish to learn, and that it is the elites who must shoulder the responsibility of government. Thus the problem is to strengthen the elites and endow them with better planning instruments, and wider powers. There are leftist opponents who say that nothing can be done until the power of the corporations and the bourgeoisie is destroyed by a victorious proletariat.”

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The neoclassical theories of economic liberalism

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In the present essay the author propounds his answer to one of the problems with which he has been most deeply concerned throughout his long life as an economist. Beginning as a firm upholder of neoclassical theories, he was convinced by the world depression of the nineteen-thirties and the Second World War that neither in theoretical nor in practical terms can the problems of our peripheral situation be resolved through economic ideas worked out in the centres; and this conviction was the starting-point of a long process of self-criticism and reformulation of theories.

There are many aspects of neoclassical theory with which he is dissatisfied. Outstanding among these are its explanations of income distribution, capital accumulation, and the role of the market in internal economic affairs and international trade. Still less is he content with the slight importance that this theory accords, for example, to the socio-economic structure, to internal and external power relations, to the surplus and to the time-lag in peripheral development.

Nevertheless, in his critique of economic liberalism he recognizes and asserts that the basis of this doctrine, the idea of economic freedom, must be upheld and prized as one of the greatest human achievements. But its defence must not be allowed to lead to the destruction of political freedom, to the grounding of economic liberty on authoritarianism. The great challenge consists, in his opinion, in reconciling the two liberties in a type of social organization which will be free and equitable both in the economic and in the political field.

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I

Neoclassical theories and internal development

1. The frustration of neoclassicism

In two earlier articles we have attempted to explore new paths in the interpretation of peripheral capitalism. What is the point of doing this? Why not examine this system in the light of neoclassical teachings? And rather than in the contemplation of fundamental changes, will not the solution lie in abiding faithfully by those teachings, and leaving the market forces to operate without artificial interference, so as to ensure the most efficient allocation of productive resources and the rational distribution of the product thus obtained?

As I said in the articles cited, I was a profoundly convinced neoclassicist. I believed—and still do—in the advantages of ideal competition and in the technical efficiency of the market, as well as in its great political significance. But peripheral capitalism is quite a different matter. And observation of the real facts of the case has persuaded me that those theories do not enable us to interpret or to tackle the major problems deriving from the way the system functions.

I have made a strenuous effort to get away from the theories in question and to seek an intellectually independent explanation of the phenomena of peripheral development; and in this attempt I have met and continue to meet with strong opposition.

The aim of the neoclassicists was to systematize and give logical consistency to the essential ideas of their classical forerunners. Thus they formulated their great doctrinal conception of economic equilibrium and of the interdependence of all the factors intervening in the play of economic forces.

As I recalled on some occasion, in my

youth these theories seduced me by their precision and mathematical elegance; and also by their persuasive cogency. They showed that the free play of economic forces, subject to no interference whatever, led to the most efficient utilization of the factors of production for the benefit of the entire community, both in the international field and in internal development. Moreover, they incorporated an underlying ethical element which has undoubtedly contributed to their intellectual prestige.

But in their striving after rigorous consistency, in the contempt with which their adherents looked down upon what in those bygone days were styled literary economists, these theories shelved important aspects of social, political and cultural reality, as well as of the historical background of collectivities.

In making a tenacious effort at doctrinal asepsis, they evolved their arguments in the void, outside time and space. If at the moment when these arguments were formulated they seemed to represent a significant scientific advance, viewed in the light of the evolution of capitalism they involve a veritable scientific aberration, especially when they endeavour to interpret the phenomena of the periphery. Nevertheless, they contain positive elements which should on no account be despised.

I am not surprised that neoclassicism has bedazzled a pleiad of Latin American economist who, having been indoctrinated in certain schools in the centres, are now trying to apply their teachings to the praxis of peripheral development. And I also understand their repudiation of interventions which, far from correcting the system's faults, are liable to make them even more disruptive, and often lead to bureaucratic perversion of the system itself.

If the neoclassical economists were to confine themselves to building their castles in the air, without claiming that they represent reality, that would be a respectable intellectual pastime, apt at times to arouse admiration for the virtuosity of some of its eminent exponents overseas. But the position is very different when an attempt is made in these peripheral countries to explain development without taking account of the social structure, of the time-lag in peripheral development, of the surplus, and of all the characteristics of peripheral capitalism with which I have dealt in the articles cited. For it then becomes convincingly evident that the spontaneous play of economic forces cannot conduce to equilibrium.

The neoclassical theories' capacity for intellectual survival is explicable enough, especially when their rigorous logic is demonstrated by means of the system of equations which Walras and Pareto introduced in their day, and which was the point of departure for the subsequent evolution of these theories. It is worth while to recall this at the present time, when such vigorous offshoots are springing up in some of the Latin American countries.

I sincerely regret that we cannot avail ourselves of these doctrines. It would be wonderful to allow the forces of the economy to lead spontaneously to the efficiency and equity of the system, without bothering about the highly complex task of deliberately influencing them. What is more, I confess that I should be prepared to justify, for the time being, certain collective sacrifices, if by their means we could definitively clear away the obstacles to development.

However, this is not the case; and I feel that to give the reasons that have induced me to abjure orthodoxy is an intellectual need and a moral responsibility. But I am always willing and indeed anxious to engage in dialogue. And I should not hesitate to recognize that I was at fault, capitulate and mend my ways, if through dialogue I found good cause to do so.

The reasons why I have long been in

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2This *volte face* should not be taken to be of recent date, as is sometimes believed. In reality my emancipation began during the great world depression, when I had to throw overboard much of what I had learned and had also taught as a young university professor.
disagreement with neoclassical theories relate to income distribution, capital accumulation, and the role of the market in respect of internal development and international trade; this last topic will be discussed in section II of the present article. While I assume, on what I believe to be solid grounds, that these theories are also far from explaining the phenomena of capitalist development in the centres, I will confine myself exclusively to the periphery, mainly because I think I know it better, and perhaps in order not to have to fight on two fronts at once, a risk which I should, of course, incur.

Let us now embark on a critical analysis of neoclassical theories vis-à-vis the real facts of peripheral development.

2. The system and its general equilibrium

The first point to bear in mind is the basic principle of neoclassical theory, according to which the economic system, left to its own free and spontaneous devices under an absolutely competitive régime, tends towards a position of general equilibrium in which the remuneration of each factor of production is determined by its respective marginal product, and the price of goods by their marginal utility. The marginal product is, of course, the additional quantity of product obtained by adding one more unit of the factor under consideration.

This means that whatever the level of productivity, the principle of equal pay for equal skills will prevail. To that end, competition is essential, both among the entrepreneurs employing labour and among the members of the labour force in their endeavour to obtain employment. How does this competition affect the movement of the system towards equilibrium? To reply to this question, the dynamic process must be examined in accordance with the neoclassical method of reasoning.

As was explained in the earlier articles referred to above, in the course of development, thanks to capital accumulation, new and higher productivity layers of technology are continually superimposed on those below, with the concomitant demand for labour. The supply is provided by the labour force employed in preceding technological layers, and by the manpower looking for employment on reaching working age.

In the same articles it was also pointed out that in peripheral capitalism, while demand for labour is relatively limited because of the insufficiency of capital accumulation, the supply is relatively plentiful, both because a large proportion of labour is employed in low-productivity layers of technology and because of the rapid rate of growth of the labour force. It is not so abundant, of course, in the case of manpower possessing the increasingly high-level skills required by the propagation of technique and the advance of development.

Thus, however great the difference between the average productivity of the new technological layers and the marginal productivity of the unskilled or semi-skilled labour force in the lower layers of technology, the increase in pay will be very slight. In other words, the more limited is the marginal productivity of the labour force employed in the lower technological layers, the more difficult will it be for those with the same skills, absorbed in higher layers of technology, to raise their marginal productivity and their earnings in correlation with the increase in their average productivity, owing to the regressive competition of the labour force remaining in the low-productivity layers, as well as to its natural growth.

Obviously, this regressive competition dwindles as demand for labour requires skills of which the supply becomes more and more limited, the higher their position in the scale. And this means an improvement in the capacity of the labour force to raise its marginal productivity in accordance with the increase in average productivity.

The productivity increment which is not transferred to the labour force temporarily remains with the enterprises in the shape of profits. It is worth while to recall in passing that in neoclassical reasoning this temporary
character is ascribed to profits, in contrast with the persistent nature of the surplus in our argument.

The profit incentive leads enterprises that have made gains to expand production, and similarly induces other enterprises to follow in their footsteps by introducing the new layers of technology. This competition between enterprises is reflected, of course, in an increase in overall demand for labour; and in so far as the supply is comparatively plentiful and precludes the correlative rise in earnings, the expansion of production will mean that prices fall until the marginal product and the income paid out break even at the point of equilibrium. Profits will then have disappeared, and all that will remain will be remuneration for entrepreneurial activities.

This is a conclusion of maximum importance in neoclassical theory, since it implies that the productivity increment is transferred either through a rise in pay—in accordance with each individual's contribution to production as determined by his skills—or, in so far as this does not occur, through a fall in prices, so that in this way the fruits of development are disseminated throughout the whole community.

This explains what was said elsewhere, i.e., that in neoclassical theories there was an underlying content of equity, except in the special case of land rent. Even so, in this latter instance equity could be achieved through taxation, without upsetting the equilibrium of the system.

An essential aspect of this ethic is the concept of the temporary nature of profits, which is different from the concept of remuneration for entrepreneurial activities.

This remuneration too is subject to the principle of marginal productivity under a competitive system. Even when, as noted above, profit had disappeared at the point of equilibrium, entrepreneurial remuneration would still be left.

The neoclassicists, of course, draw a clear-cut distinction between the entrepreneurial function and the ownership of the means of production, whether or not they are combined in practice. From the conceptual standpoint this distinction is very important, since in the position of general equilibrium, the owners of capital do not obtain profits but interest on their capital. This is a point to which we shall revert later.

The reasoning is accurate, but it overlooks two phenomena: the surplus, and power relations.

3. Neoclassical theories and the surplus

It seems needless to dwell on the structural phenomenon of the surplus, which has been analysed in detail in the articles mentioned above. All that is appropriate at the moment is to recall a few essential points of fundamental divergence from neoclassical reasoning.

First and foremost, the fruits of increased productivity are not reflected in a fall in prices in so far as they have not been transferred to the earnings of the labour force, but remain in the hands of the owners of the means of production in the shape of a surplus.

No such downward trend in prices has made its appearance in peripheral development, despite the steady rise in productivity. The surplus is left in the hands of the owners and tends to stay there, because, on account of the actual dynamics of the production process, the additional employment required to expand tomorrow's production generates a rise in income today, which is the source of the increase in demand that allows the productivity increment to be absorbed. Otherwise, inter-enterprise competition would bring prices down as the neoclassical economists assume.

The successive increases in demand which accompany productivity increments ceaselessly accumulate and circulate within the system. They do not vanish into thin air. Only part of them is transferred to the labour force, and the rest goes to swell the global surplus.

Hence follows a conclusion of the
greatest importance. The concept of the surplus is similar to that of profit, since both have their origin in increased productivity; but while profits tend to disappear, according to neoclassical reasoning, the global surplus is persistent.

It is subject to two contrary movements. On the one hand, it increases through further improvements in productivity; on the other, it decreases as in one way or another the sharing capacity of the labour force is strengthened in its different forms.

The global surplus resulting from these two movements grows continuously at a rate exceeding the growth rate of the global product. If the aforesaid sharing capacity gains strength, and accordingly the growth rate of the surplus falls behind that of the product, the system reacts through price increases, with very serious consequences which, sooner or later, lead to its crisis.

4. The possibility of dynamic equilibrium

Thus, even if competition is absolutely free and unrestricted, the system heads towards a crisis rather than towards the dynamic equilibrium that neoclassical theory assumes. This point needs stressing, because the neoclassical economists usually attribute the major defects of the system to the obstruction or elimination of competition —both among entrepreneurs and as regards the labour force— as well as to arbitrary intervention on the part of the State.

The fundamental cause of the crisis is that the capital accumulation potential of the surplus is frittered away in the privileged-consumer society and in the siphoning-off of funds to the centres. If it were devoted to accumulation, under a régime of austere capitalism, the possibility of a measure of dynamic equilibrium would be conceivable.

Now for a brief explanation. More vigorous capital accumulation would result in a gradual weakening of the system’s tendency to exclude the lower strata from the benefits of development. The layers of technology where the marginal product is low, and where the strata in question are found, would be progressively eliminated, and their place would be taken by those immediately above them. As the process continued on these lines, the disparities between layers of technology would diminish and, consequently, so would the differences in productivity. In this way, the system would be brought to the point of equilibrium by an increase in the marginal product and in earnings rather than by a fall in prices.

It is thus possible to conceive of a time when the whole of the labour force would be employed with great productivity in higher layers of technology. Homogeneity of technique would then have been reached, thanks to capital accumulation, after a more or less lengthy period of transition. Homogeneity, but not the suspension of the process, since new technological layers would go on being superimposed on one another, and capital accumulation would have to be continually increased in order to absorb the labour force employed in the preceding layers and the increase in that labour force: in other words, in order that the system should not revert to social heterogeneity.

As marginal productivity and earnings rose in the manner described, the surplus would tend to disappear; it would gradually eat itself up, so to speak, in the unrestricted interplay of competition. While the neoclassical economists of the periphery show little sign of concern for the dynamics of the system or for these harassing phenomena of heterogeneity, I do not find it hard to believe that they may perhaps have some such image in mind. This would account for their conviction that if the system were left to its own devices, without any interference whatsoever, the basic problems of peripheral development would be resolved. All the more so, inasmuch as they assume that in the process the system would draw closer to the distribution ethic of which something has already been said.
5. The tendency of the system is not towards equilibrium

But as far as the periphery is concerned all this is remote from reality. Not only because the capitalism of the privileged-consumer society is anything rather than austere, but for another reason of transcendent significance in the dynamics of the system, which we will go on to recall.

The tendency of the surplus is not to peter out but to grow faster than the product. This growth makes it possible to imitate more and more closely the consumption patterns of the centres and at the same time to continue accumulating enough capital for the process in question to be kept up under the rule of market laws.

As this happens, however, changes in the social structure are accompanied by an increasing capacity to obtain a share in the fruits of productivity on the part of the labour force disadvantaged by market laws. This power of participation counters the power of the upper strata, to the detriment of the global surplus. And a point is thus reached at which the latter tends to grow more slowly than the global product. It is the point at which, of course, entrepreneurs react by raising prices to recoup their losses. Thus inflation becomes inherent in the system in the course of structural change, and sooner or later leads to the use of force to restore the dynamics of the surplus.

The system does not function properly unless the growth rate of the surplus is at least equal to that of the product; it does not, therefore, tend towards dynamic equilibrium, as might be deduced from the abstract arguments of neoclassical reasoning.

6. Distribution and power relations

In the appropriation of the surplus is to be found the source of the great distribution disparities of peripheral capitalism. Let us now extend our critique to neoclassical distribution theory.

We said elsewhere that the higher the level of the skills necessitated by the penetration of technique, the smaller was the difference between demand and supply, and the greater the capacity of the labour force to share in the fruits of technical progress.

But a little thought will show that this is not an entirely spontaneous phenomenon, since the acquisition of such skills is strongly influenced by the social power that enables those who are best-situated in the socio-economic structure to obtain effective access to training opportunities, which are also affected by political power.

It is true that as far as equality of training opportunities is concerned, great disparities can be seen, in keeping with the differences in individual ability and dynamism, and, therefore, aptitude for social mobility likewise varies widely.

In earnings, at all events, there is an element of privilege. Unquestionably, too, the pay incentive is a powerful spur to undertaking the effort that training represents. Consequently there is also a certain ethical significance in the neoclassical argument which attributes earnings to the contribution made by the individual to the production process. Ultimately, the market is the arbiter of his merits; but in the real possibility of making this training effort there is an element of social privilege.

As regards earnings, the labour force whose capacity to share in the fruits of higher productivity is weak, under market laws, has no means of improving matters other than its trade-union and political power. That this leads to arbitrary attitudes there can be no doubt; but the appropriation of the surplus is arbitrary too.

True, this redistributive power of the labour force means that its earnings may be higher than its marginal productivity, although not its average productivity, except when the above-mentioned limit in the dynamics of the surplus is overstepped. But the surplus too is higher, and in very great measure.

The responsibility for the evils of the system is often laid, at least in part, upon
trade-union intervention which distorts market laws with upsetting effects on the equilibrium of the system. Trade-union power is in the last analysis the counterpart of capitalist concentration and the appropriation of the surplus. I should not wish to underestimate the intellectual worth of the neoclassical writers of the centres — some of whom are very eminent indeed — by ascribing to them the simplistic attitude of regarding trade-union power as anathema. But this simplism does appear in some neoclassicists of the periphery, who do not hesitate to maintain that unemployment is the consequence of arbitrary trade-union or political intervention which prevents wages from dropping to their natural equilibrium level.

In conclusion, the fruits of technical progress are not distributed according to marginal productivity as is assumed in neoclassical theory, but mainly through the power of the various social groups. And as the play of power relations is governed by no regulatory principle whatever, far from conducing to the dynamic equilibrium of the system, in the course of time it brings about a crisis: essentially a distributional crisis.

7. Capital accumulation and the rate of interest

We have argued that because of its continuous growth the surplus is the primary source of capital accumulation. It is therefore understandable that this structural phenomenon of the surplus oversets the abstract propositions of neoclassicism with respect to accumulation. Since according to them profits were transient in character, and the fruits of higher productivity tended to be widely disseminated, a mechanism had to be devised that enabled the savings necessary for accumulation to be collected from the whole community. This is the mechanism of the rate of interest. The movement of the rate would encourage savings to the extent necessary for the introduction of new and higher-productivity techniques; and as their fruits would be distributed among all, all would be in a position to participate in the accumulation process in so far as they were prepared to defer current consumption.

The rate of interest, in the position of general equilibrium, is given by coincidence between the contribution made to the product by one marginal unit of capital and the marginal supply of savings.

It might be inferred from neoclassical theory that there is no element of privilege at all in the ownership of capital, since in view of the diffusion of the fruits of technical progress, interest is the reward of those who accumulate capital by abstaining from current consumption.

The role of the rate of interest has been much discussed, but it seems needless to dwell on this point, since it is not thus that the greater part of the capital accumulation of enterprises is effected.

Accumulation derives mainly from the surplus, either directly or indirectly. Under the capitalist system, in so far as the labour force saves at all, it does so to accumulate not capital in enterprises but chiefly various forms of consumptive capital.

The surplus is not accumulated in enterprises in response to incentive of the rate of interest. The incentive is much stronger, and is determined by the amount of the surplus itself that is expected to accrue from the introduction of new layers of technology. It might have considerable dynamic impact on accumulation if there were not a contrary incentive — that of imitation of the consumption patterns of the centres.

From another standpoint, if the surplus and the great distributional inequality it represents account for the evolution of the consumer society, this does not mean that an equitable redistribution of income will resolve the accumulation problem through the operation of the rate of interest. I think the propensity to consumption is very strong throughout the social structure; and if in the upper strata it is powerfully influenced by the imitation of the centres, at the other extreme of the structure, in the lower strata,
the growing propensity to consume as income increases is explained mainly by the privations of the sub-consumer society.

There is some right on the side of those who contend, therefore, that income redistribution would have adverse effects on capital accumulation: an idea which leads them to exalt the social role of those who appropriate the surplus. All of which is very much in keeping with a system based on the irrationality of appropriation from the standpoint of the collective interest. The problem consists, therefore, in finding some other way of appropriating the surplus in order to distribute it equitably and at the same time to raise the rate of accumulation. But let us not look too far ahead, since much remains to be said before this point is reached.

Another important role of the rate of interest on which stress is pertinaciously laid by the neoclassicists is that of efficiently guiding the selection of techniques. Though I consider, be it said in passing, that the technical options are fairly restricted; but this does not affect the argument under consideration.

Still according to the neoclassicists, the selection of alternative techniques would seem to be greatly distorted by the manipulation of the rate of interest, and the obstruction or suppression of competition in the determination of labour earnings. The monetary authorities, the argument alleges, induced by expansionist motives, generally establish a lower rate of interest than would be dictated by market laws, and this encourages forms of investment which involve excessive saving of labour and the use of more capital than the market would warrant. Whether there is manipulation or not, the surplus is overlooked. Moreover, the trade-union power of the labour force tends to push up wages above the level of its marginal product. Thus, market laws are distorted, and this precludes the selection of technical options consistent with a strict concept of economic efficiency. If the structural phenomenon of the surplus did not exist, if distribution were effected as the neoclassical economists imagine and if accumulation were governed by the rate of interest, this line of reasoning would be valid enough. But obviously it is not thus that the system operates.

8. The regulatory role of the market

Finally, this brings us to the concept of the market in neoclassical theory. As I have said elsewhere, the market lacks not only a social horizon — a horizon of equity — but also a time horizon.

It is a crass error on the part of conventional theories to assign to the market the role of supreme regulator of the economy. It is far from playing such a part, although this does not mean that it has not a value attributed to it by the same theories, i.e., that of bringing producers and consumers into contact with one another. That the latter are influenced by perturbing forms of collective suggestion, there can be no possible doubt; but this can be largely explained by the existence of distributional privileges which it is sought to exploit. In any event, the final decision of the consumers is of paramount importance in determining the behaviour of enterprises.

These are familiar arguments which fully justify the survival of the market as a technical instrument, as well as on account of its political significance. If the market were suppressed, decisions as to what is to be produced and consumed would be adopted exclusively at the top levels of the planning agency, which would have very serious political implications.

But the market must not be confused with the factors that push it from behind, nor should it be expected to do more than it can. The market cannot modify the social structure whence emanate the power relations that largely determine income distribution, nor can it establish the necessary rate of accumulation. But if these and other major defects were corrected with foresight and in a spirit of equity, the market would become an effective mechanism for the allocation of productive resources.
II
The significance of neoclassical theories on the international plane

1. General considerations

To understand neoclassical arguments on the international plane, a point which must always be borne in mind is the significance of the price-equilibrating mechanism under a régime of free competition. Let us recall, therefore, the basic assumption that the fruits of technical progress are distributed either through an increase in earnings or through a fall in prices. It does not matter that owing to the regressive competition of the labour force in lower layers of technology, earnings do not rise correlative with productivity, for in so far as this does not happen, competition between enterprises will bring down prices until the residual fruits of progress are transferred to the entire collectivity.

If this argument were applied to centre-periphery relations, we should see that the problem of the effects of the considerable differences in productivity resulting from the great structural disparities would also be resolved through the price mechanism. The periphery's external bottleneck would disappear of its own accord if market laws were left to operate. If the lower level of productivity in the periphery prevents its exports of manufactures from competing in the centres, it is because earnings are higher than productivity. Consequently, if they are allowed to fall to their point of equilibrium, industries which were not competitive will become so. Nor is this all. For the drop in salaries and wages will also reduce prices in those export activities that were already competitive. Herein would lie the efficacy of devaluation of the currency as an equilibrating instrument, according to neoclassical reasoning.

If this argument were carried to an extreme, the conclusion might also be reached that the advantages of the price decline in the aforesaid export activities would be diffused throughout the international community. For the reasoning to be correct, however, it would have to be shown that the price mechanism also spread throughout the international community the fruits of increasing productivity in the centres, in so far as they had not been reflected in a correlative rise in earnings. But this does not happen.

In any event, if the periphery's manufactures were to become competitive this would not be enough to correct the tendency to a bottleneck, since it is also essential that the centres should open their doors to such competition. But this does not happen either. The power of the enterprises and the power of the labour force combine to prevent it.

The fact that the periphery may resort to the well-known laws of the market in its endeavours to resolve this problem would certainly not have the merit of ensuring that the centres will do the same.

As will be remembered, the centres set up serious obstacles to imports of those manufactures in which the periphery has attained or may attain competitive capacity. They are usually manufactures for which demand grows relatively slowly and which trade liberalization policy seldom covers.

This policy, on the contrary, has been applied to the technically advanced industrial goods in which technical innovations are incessantly embodied. The centres' foreign trade in these goods has expanded to an exceptional extent, and here the participation of the periphery has been relatively slight, notwithstanding liberalization. The transnationals prefer to invest in the centres themselves in order to secure these innovations and put them into effect, although it is
true that they do also invest in those peripheral countries which attract them by offering them various facilities. But, generally speaking, they do so in order to produce goods which in the centres are giving way to other more advanced products resulting from further innovations. For that very reason, the transnationals have no interest in exporting peripheral manufactures to the centres, inasmuch as it suits them better to broaden the market for the newer goods by exporting them to the periphery.

Clearly, then, even if the periphery reduces its prices by means of currency devaluations or subsidies, the positive effects will be very limited as far as the centres are concerned.

Furthermore, the opposition put up by entrepreneurs and workers alike to the importing of such goods is notorious, and this undoubtedly constitutes an additional reason why in this respect the transnationals do not display the drive by which they are characterized.

Here again we encounter the effects of the structural disparity. Neither are the transnationals interested in internationalizing the production in which the dynamics of innovation is most manifest, nor is the periphery, technically and economically speaking, in a position to do so. And when it has acquired this capacity in the case of less technically advanced goods, the centres obstruct the corresponding imports.

I am trying to expound these facts as objectively as possible. I think, however, that despite everything the centres could have launched an industrial redeployment policy which would progressively open their markets to those imports in which the periphery had attained satisfactory technical capacity. Such a policy might have been hoped for during those long years of prosperity which preceded the crisis of 1973. But no such steps were taken.

In contrast, it is by no means uncommon for the centres to continue criticizing the very concept of import substitution in the periphery, and to lay insistent emphasis on the supremely important role of the transnationals in the internationalization of peripheral production.

It is with deep concern that I underline these facts, for they indicate that the centres, with very few exceptions, are still viewing the great problems of the periphery in the light of immediate and circumstantial interests. They show no signs of a long-term outlook, a conception at once bold and realistic of their world responsibilities. All they do is to take spasmodic action during crises in the periphery!

This state of affairs is very serious, although more explicable today than a few years ago, since their own problems have now become so complicated. But on the other hand it is not so easily understandable that in the periphery itself the dogmas of neoclassicism should have distorted the interpretation of a reality which so greatly affects its fundamental interests. Import substitution is reviled, as if in order to export manufactures the mere intention of doing so were enough, and as if the industrial centres were panting to receive them.

There can be no doubt that in some cases protection has been excessive, and that many mistakes have been made. But a distinction must be drawn between the irrationality of protection and the rationality of import substitution. Substitution was in reality a necessity imposed by the crises in the centres, and I greatly fear that the difficulties which the periphery is at present experiencing will again necessitate further substitution when, in contradistinction to what happened formerly, a considerable industrial export potential is now available. The effort to persuade the centres must be perseveringly pursued. But we must also convince ourselves that in the use of that potential under new systems of reciprocal trade among peripheral countries a basic solution of the problem of the external bottleneck is to be found.

Two different motivations underlie economic theories: on the one hand, the zealous wish to find a scientific interpreta-
tion for real phenomena; and on the other hand, the quest and observance of certain principles which are in line with specific economic or political interests. It is not always easy to disentangle these motivations, which are often inextricably bound up with one another. Thus, the classical theory of international trade has scientific validity given certain assumptions, but it also served to formulate that outdated prescription for the international division of labour which accommodated dominating interests both in the centre and the periphery. And thus it has long provided grounds for opposing, in the name of market laws, the deliberate industrialization of the periphery.

We have already alluded, in other studies, to the way in which market laws are invoked to justify the present constellation of interests in the new centre-periphery relations, particularly with respect to transnationals. Even so, we cannot omit a brief comment on market laws with regard to primary commodities.

From the time of CEPAL's earliest studies we have made efforts to explain these commodities' weak capacity for retaining the fruits of their increases in productivity. What is involved is not a natural law intrinsically affecting the commodities in question, a law immanent in their future evolution, but the social structure of the periphery and its relation to the structure of the centres. Let us summarize the position. Primary commodities are generally characterized by a low income-elasticity of demand, so that when their productivity increases and the supply expands beyond certain limits, prices tend to fall. If the earnings of the labour force could appropriate the productivity increment (as it is appropriated by the landowners when land is in relatively short supply), there would be no such price decline, albeit other factors may exert influence in the same direction. But this does not happen, because of the large proportion of manpower in lower layers of technology whose regressive competition prevents earnings from rising correlatively with the increase in productivity. Thus the internal terms of trade deteriorate, and so do the international terms of trade, in the case of exportable goods. This is bound to be the outcome of the play of market laws when they are not subjected to intervention in one way or another.

Generally speaking, the centres have opposed such intervention when it concerns goods of special interest to the periphery, although their attitude in this respect has been less negative during recent times. But when their own products are affected they do not hesitate to violate market laws; thus, we have witnessed what has sometimes been the deliberate restriction of production in order to force up the world market prices of certain goods, while in other cases internal prices were protected against an international slump by recourse to various types of manipulation or compensation.

In reality, the centres invoke market laws when a price decline does not affect their own production. Then they accept with approval the deterioration of the terms of trade for certain goods in which productivity is increasing. Moreover, to bring it about they advise the introduction of new techniques, just as they counsel devaluation as a means of achieving external equilibrium. Only their reaction to the effects of this measure is to reap the benefits of the fall in prices in respect of exportable goods where no devaluation was necessary, while withstanding imports of those goods which by virtue of devaluation become competitive.

The centres are well able to defend their own interests. They cannot be blamed for such an attitude as long as there is no world development policy. But at all events it is a flagrant contradiction to invoke market laws in one instance and to forget all about them in another: a contradiction, however, which does not fail to do them useful service in practice, as long as believers in the efficacy of market laws for regulation purposes still exist in the periphery. Only fidelity to market laws is not usually compatible with the interests of peripheral development.
In the light of what has been said above it is justifiable to take a closer look at the problems mentioned. We will begin with the persistent trend towards external disequilibrium.

2. The trend towards an external bottleneck and its spontaneous correction

Needless to say, the growth of total income which goes hand in hand with development gradually modifies the composition of demand in favour of manufactured goods which are continually diversified in the centres. Thus a highly important alternative presents itself: either to obtain such goods by increasing exports of primary commodities so as to be able to import them, or to produce them at home.

For neoclassical theory the problem is very simple: a matter of trusting market laws to resolve it. It is true that domestic production is at a disadvantage in relation to the centres because of the time-lag in development. Well then, it should be left to market laws to depress wages until production achieves economic efficiency. The fall in wages will also encourage the growth of exports, and in this way the market will determine of its own accord how far the increase in demand will be satisfied by expanding imports and how far by expanding domestic production through spontaneous industrialization.

From the standpoint of development praxis, the problem might be posed in the following simple terms. How is industrialization to be tackled? Are market forces to be left to offset by the reduction of wages the differences between the cost of manufactured goods in the centres and in the periphery, or is protection to be invoked to achieve this end? Protection, of course, contravenes the conventional theories of international trade, not, however, because the latter are not strictly logical, but because they overlook the consequences of the structural disparity in the centre-periphery system.

To follow up these assertions, the effects of the disparities must be examined on a theoretical plane. Let us first do so with reference to the periphery as a whole in its relations with the centres.

Allusion must first be made to the well-known phenomenon of the differences in income-elasticity of demand, to which we shall continue to attach great importance. The relatively low income-elasticity of primary commodities in general, in comparison with that of the continually-diversified industrial goods, constitutes one of the elements in the congenital weakness of the periphery.

If primary exports expand disproportionately to the growth of income in the centres, their prices tend to fall, and this decline offsets, wholly or in part, the effect of the increase in volume on the total value of exports, or, worse still, actually reduces this total value.

3. Devaluation and protection

This idea underlies the argument in favour of protection. For while it is true that protection means producing at higher costs what could be obtained more cheaply by buying abroad, it is equally undeniable that to encourage primary exports beyond a certain point causes a price decline which may be greater than the loss due to the cost difference.

All this depends upon the relation between elasticities. On the one hand the price-elasticity of demand for exports beyond the limit set by the growth of income in the centres; and, on the other, the cost-elasticity of the supply of import-substituting production. Let us look at one or two concrete examples to illustrate this point.

Be it assumed that there is an increase in productive resources which makes it possible to expand exports or import-substituting production.3 Let it also be assumed...

3To simplify the argument, the proportion represented by the import component in each case has not been taken into account.
that the cost of the import-substituting production is 40% higher than the price of the corresponding imported goods. To offset this greater cost the currency is then devaluated to the extent necessary to make import substitution possible and at the same time promote exports.

The upholders of the conventional theories usually consider that devaluation is the instrument used by market laws to fulfil their purposes; an instrument which, to be sure, does not derive from the spontaneous play of market forces but from a deliberate decision on the part of those responsible for economic policy. But let us not dwell on these subtle issues. It should, however, be noted that devaluation causes a drop in real earnings, and to prevent them from rising again, is a requisite for the efficiency pursued.

A 40% increase in the value of foreign currencies, besides encouraging import-substituting activities, will push up the domestic prices of exports, thus encouraging an expansion of primary production for export.

Now, if the latter's elasticity was such that for every 1% increase in volume the decrease in prices caused a loss of 0.4%, the value of exports would also be reduced by 40%. From the standpoint of collective rationality, therefore, it would be a matter of indifference whether the increase in productive resources were devoted to exports or to import-substituting activity, or were distributed between the two. But this would be an accidental coincidence.

In reality, the downward trend of prices is usually much more marked than in the example given. It not infrequently happens that for every 1% increase in the volume exported over and above the limits set by the growth of income in the centres, prices tend to fall in a similar or even greater proportion, so that the effects of the increase in volume would be cancelled out or a still bigger loss would be suffered. This would happen in all cases where the drop in prices was sharper than the fall that would have been caused by the aforesaid 40% reduction.

To state this argument in general terms, it might be said that substitution would be desirable whenever the cost-elasticity of import-substituting production were less than the price-elasticity of exports.

There is, of course, no selective principle in devaluation. All exports are encouraged by devaluation and the correlative rise in domestic prices, whatever the difference in elasticities. Thus if the price-elasticity of exports were higher than the cost-elasticity of import substitution, the reduction in the value of the former would be greater than the loss that would be incurred through import-substituting production.

It should be noted in passing that the loss or the reduction are not net, but relate to the increment in production exported or in import-substituting production.

Strictly speaking, this is the loss that the periphery must incur in order to step up its global product faster than the product of its exports and thus gradually absorb the labour force which export activities do not employ. The resulting increase in manufactured goods thus makes it possible to satisfy the growing demand for these which accompanies development.

The net advantage for the periphery consists in reducing to the minimum the loss in question as against the increase in the total product which industrialization brings about.

Hence the advantages of a form of protection which is established only in the degree required to cover the differences in costs. Nor would there be any reason for it to be accompanied by a deterioration in the terms of trade for exports. But the neoclassical economists cannot resign themselves to acknowledging the defects of market laws, and in order to ward off the negative effects of devaluation on exports, advocate taxation.

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4A distinction should be drawn between this devaluation and the devaluation imposed by inflation when domestic prices exceed those quoted on the world market.
to tap the increase in the prices of primary exports, since otherwise it would be lost through a price decline. Herein lies an astonishing inconsistency. They repudiate protection because it interferes with market laws, while at the same time they postulate a tax which is another way of violating them!

If we follow up the thread of the neoclassical arguments a further highly suggestive aspect presents itself. Devaluation, apart from its external effects, increases the surplus in all production for the home market. This should give no cause for concern, in the light of neoclassical reasoning, since competition will bring down prices. No such decrease would occur, however, in the case of goods where devaluation had offset the differences in costs between domestic production and imports; which means that in the last analysis the impact would be exactly the same as that of protection equivalent in effect to devaluation. Why, then, upset the whole internal system of costs and prices?

The hard facts, however, do not work out as these arguments suggest, since the surplus, thus increased by devaluation and the rise in prices, is not transferred to the collectivity, but remains in the hands of the owners of the means of production and of the strata that are gradually acquiring trade-union and political power.

In any event, what happens to the surplus when export prices fall? It is transferred abroad either through an increase in the proportion of it that goes to the enterprises using the primary commodities in question, or through price reductions, according to the respective income-elasticity of demand.

4. Diversity of peripheral situations

Hitherto we have considered the periphery as a whole in order to explain the unfavourable effects on trade relations produced by the structural disparity between it and the centres. But naturally the situation varies greatly from one peripheral country to another; there are some countries whose exports carry considerable weight in the world market and others whose influence is insignificant. The former are very much exposed to deterioration of their terms of trade, which is not the case with the latter, whose exports could undergo relatively intense expansion without ill-effects on their prices; although of course these countries cannot escape the adverse consequences of the deterioration affecting the first group. Between these extreme cases there is a whole range of intermediate situations.

These differences, however, do not mean that industrialization is any less an indispensable requirement of peripheral development in the case just mentioned. Rather do they affect the scope and pattern of industrialization.

Thus, for countries whose importance in the world market is slight the possibilities of expanding primary exports are greater than for the rest. But though great they are not boundless, since the countries' natural resources have their limits, however much technical progress may increase productivity. There comes a time when the expansion of production encounters the obstacle of rising costs which weaken the economic advantages of exports as against those of industrialization.

But there is a further powerful justification for industrial development. Export activities generally absorb a relatively small proportion of the labour force, especially when technical progress is propagated. Even though there may be no sign of a trend towards deterioration, industrialization is a necessity in order to absorb progressively, through the superimposition of new and higher-productivity layers of technology, labour from technological layers where productivity is much lower, with the consequent increase in the economy's global product.

If this is to be achieved in conditions of economic efficiency, it is essential that the rate of capital accumulation be speeded up in order not to divert resources from the
expansion of export activities, as long as these can continue to develop without rising costs or losses which exceed the cost of import-substituting industrialization. But so far we have said nothing of the penetration of technical progress in export activities. The increase in productivity which it implies strengthens the tendency to deterioration of the terms of trade; and this is due to the regressive competition of the large proportion of the labour force employed in lower layers of technology, under the rule of market laws, as has already been explained. To enable the producer countries to retain the fruits of higher productivity, it would be necessary to get rid of this regressive competition, which could be done only after a more or less lengthy period, through more intense capital accumulation whereby the manpower in question could be employed in industry and other labour-absorbing activities. But as long as this does not occur in a sufficient degree, the fruits of technical progress in export activities will tend to be transferred abroad, in accordance with market laws, always provided that demand has not increased enough to absorb the production increment.

The most important conclusion to be drawn in this deterioration thesis, which CEPAL expounded in its earliest years of activity, consists in the inescapable need for industrial development. Industrialization would gradually absorb, at rising levels of productivity and income, labour from the lower strata, while at the same time it would progressively correct the structural weakness of the periphery. And as this was achieved, the periphery would be able to retain a steadily increasing proportion of the fruits of technical progress, instead of their being transferred through deterioration of the terms of trade under the rule of market laws.

The shortage of land, in relation to the expansion of world demand, is also a highly important factor which in some cases helps to counteract the trend towards the deterioration of the terms of trade in the spontaneous play of economic forces. This is what has happened in certain periods in the case of some temperate-zone products; but the same is not true of tropical products, to which we will refer a little later.

When land is in short supply in relation to demand, an increase in productivity tends to raise land rent rather than transfer it through the deterioration of the terms of trade.

It may also happen that part of the productivity increment is internally or externally absorbed in transport and marketing activities, especially when trade-union power is also vigorously operative in these, in contrast with its weakness in productive activities.

But another and very important possibility is that technical progress may be so intense that despite the shortage of land the tendency to deterioration of the terms of trade reappears.

One aspect of the centres’ experience may be highly significant in this connexion. The old United States policy of parity of agricultural and industrial prices was intended to offset deterioration; as were also, later on, the measures adopted to restrict production through the deliberate reduction of the land under cultivation. Moreover, the first International Wheat Agreement, during the great depression of the 1930s, was also supported by the United States as a means of counteracting the spontaneous play of market forces.

Familiar, too, is the European Economic Community’s policy of opposition to the deterioration of the terms of trade occasioned by the considerable increase in agricultural productivity. In reality, the intense absorption of redundant labour from the agricultural sector did not suffice to counteract the trend towards deterioration.

The case of tropical agricultural commodities merits special mention. From the very earliest days of their large-scale exportation the abundance of labour and the plentiful supply of land made for unfavourable income relations with the centres. Even
in the absence of further deterioration, a serious problem is still posed, since the factors referred to have prevented the terms of trade from improving in relation to their poor starting-point, as they might do in the course of time if capital accumulation and the labour-absorbing capacity of the system are intensified, with the resultant rise in the income of the labour force in the producer countries.

What we have said of the congenital weakness of the periphery in international trade makes it possible to understand—conversely—the superiority of the centres. Demand-elasticity is in their favour; technical innovations and the diversification of manufactured goods enable them to develop their trade without the serious difficulties with which the periphery is faced in consequence of its structural time-lag. Any differences in elasticity that arise between the centres are smoothed out in a relatively short space of time, by virtue of the similar technological density and capacity for accumulation of the countries concerned.

This accounts for the renewed influence of conventional theory on international trade, which has led the centres to adopt a trade liberalization policy.

Let there be no misunderstanding, however, as to the true scope of our remarks. We do not mean that conventional international trade theories are valid for the centres and not for the periphery; their validity is universal. But if they are applied to centre-periphery relations, the effects of the periphery's structural weakness must be remedied by the establishment of conditions in which trade can develop with the reciprocal benefits that these theories imply.

5. The ideological hegemony of the centres

I cannot conclude these remarks without recalling that CEPAL's original thesis on the deterioration of the terms of trade had in its earliest years a patently polemical significance. Upon it was based the unavoidable necessity of industrialization. But the old prescription for the international division of labour was still current, and more than one eminent professor in the United States—not to mention governments—denounced our poverty of doctrine.

Under the rule of market laws, the periphery tended to transfer to the centres, wholly or partly, the fruits of the technical progress incorporated in export activities. An essentially structural problem. And there was no solution more economically acceptable than rational industrialization; not spontaneous industrialization, however, but deliberate, with the support of protection, without which the trend towards deterioration would be aggravated.

It was all the more necessary to defend this thesis, inasmuch as in the centres another form of peripheral development, based on the technical progress of export activities, was still being advocated: a new version of the old prescription for the international division of labour.

Nobody can deny, of course, the importance of incorporating technical progress into export activities. But we asked ourselves then, not without some anxiety, who would benefit by it unless concomitant measures were adopted to mitigate, at least, the transfer of its fruits abroad.

The position taken up by the centres, however, has not given way to the pressure of events. Even today new combinations of interests are still being sought whereby the periphery's natural resources can be developed so that the centres may obtain primary commodities at lower prices.5

5In this connexion it is worth recalling the idea for the creation of a natural resources bank presented by Dr. Henry Kissinger, then Secretary of State, at the fourth session of the United Nations Conference on Trade and Development, held in Nairobi in May 1976. Perhaps because it was presented at the last moment and without prior preparation, this idea was not considered by the Conference. Personally, however, I was convinced that it was not without merit, since, properly worked out, it might imply new methods of negotiation and of obtaining financial resources whereby peripheral production could be expanded and inter-
As a matter of fact, it is natural that the centres should almost invariably look at these questions from the standpoint of their own interests: interests of the moment rather than inspired by long-term criteria. For market laws, as we have already said, are lacking both in a time horizon and in a social horizon. It is true that in the academic world deep-rooted convictions are still cherished; but neither is there room for doubt that the prestige of certain theories is largely based on their congruity with dominant interests.

We have already mentioned that the centres have had to face their own deterioration problems, and have had to counteract the spontaneous play of market laws. But in doing so perhaps they were not aware of violating those laws; nor do the powerful show any such awareness in respect of certain economic principles which they proclaim: when these principles do not suit their convenience, they create other new ones!

I have also said elsewhere that some economists in the centres advocate devaluation in the periphery, not in this instance to remedy the consequences of inflation, but as a means of achieving industrialization without impairing market laws: a line of policy which, besides apparently respecting orthodoxy, has for the centres the virtue of lowering the prices of their primary imports.

All this is very understandable from the centres’ standpoint, as is likewise that other thesis of the internationalization of production by grace and favour of the transnationals. Demand is quickly internationalized, but production with much less ease.

In any event, the periphery has not yet learnt to evade the seduction of certain ideologies whose intellectual irradiation from the centres is still potent: spontaneous irradiation, and also propagation by deliberate action. Reflections of both are to be seen in the case of the neoclassical theories.

I trust that these pages will at least help to sow a few seeds of doubt as to the validity of these theories in the periphery. It would perhaps be one way of taking the first steps on a long and difficult road: the road to authenticity of development.

III

The contradictions of liberalism

1. The conceptions of liberalism

Political and economic liberalisms flow from the same philosophical source. They reflect human feelings and aspirations which for centuries have manifested themselves throughout the course of history, struggling ahead against enormous difficulties, surging forward and then ebbing back again. Full of vicissitudes has this process been, and sometimes sanguinary, like the battle for human rights that is inseparable from it. And however much progress democratic institutions still need to make in the centres, what has been achieved is of such great human significance that it would seem to be definitive or irreversible, although always exposed to setbacks.

The ideas of political liberalism, which have so greatly influenced the constitutional organization of our countries, represent another of the valuable contributions made by the centres to the development of the Latin American region of the periphery.

The struggle waged by political liberalism throughout history reacts against the
concentration of power and its abuses and arbitrary practices, in defence of the freedom of the individual and of respect and firm support for his basic rights.

The essence of economic liberalism too is the freedom of the individual—a freedom which, under the guidance of personal interest, would make it possible, according to the theorists, to attain definite objectives relating to the good of the community: productive efficiency and distributional equity on the one hand; and, on the other hand, the dispersion of economic power through competition among innumerable enterprises.

As they were originally conceived, the philosophical correspondence between the two currents of liberalism was in reality perfect.

Hence the fundamental importance of the concept of economic freedom and its political significance. The State did not need to intervene to regulate production or income distribution, since free enterprise and competition continually made for the most appropriate solution from the collective point of view.

Exempt from all responsibility in economic life, unless it were that of preventing the restriction or elimination of competition, the laissez-faire State could devote itself to the full discharge of the essential functions attributed to it by the political theory of liberalism.

But in the Latin American region of the periphery too political liberalism and its democratic evolution have had a long road to travel over very rough ground. There too liberal ideas had to overcome formidable obstacles and were and still are exposed to severe and painful vicissitudes. In all this there have been both illusions and realism, but also frequent and striking proofs of immaturity: anarchy and popular ferment, and repressive authoritarianism; a struggle for power in which lofty designs have been combined with eagerness to grasp at the advantages that power can give; a contest that finds expression in electoral campaigning or in the use of force, either by those who wield it, or by others who make use of these latter to fulfill their aspirations or gratify their interests and ambitions.

There are important features in this historical background which are still projected into our own time. I have to stress this for the very reason that I am trying to show here the emergence of new structural phenomena which had not appeared in earlier days. And I think that until relatively recent times it has not been possible to form a clear picture of the contradiction between the advance of democracy and the accumulation and distribution patterns which characterize peripheral capitalism in the course of the changes in the social structure.

Some of the features perceptible in the historical background may possibly be attenuated, while others lurk beneath the surface of events. But the aforesaid structural changes play a dominant role; and when the system reaches a crisis they end by rendering democratic liberalism incompatible with economic liberalism.

Undeniably, in the periphery democratic liberalism has still a very long way to go. But it does not consist in the mere text of a constitution; it is something more. Its full realization calls for institutional changes, education of the masses and of leaders, and new attitudes as well. But a risk—a great risk—of succumbing to new illusions is incurred, if, in undertaking such reforms, we still shirk acknowledging the great flaws and contradictions in peripheral development. And we hardly could acknowledge them as long as we go on looking at the system in the light of economic liberalism; for in the reforescence of neoclassical theories the original concept has been adulterated in its very essence, and does not reflect the real conditions of the periphery. Nor do I think, moreover, that it ever has reflected them, although in other structural phases it has been possible to believe in some degree of consonance with reality.
2. The adulteration of economic liberalism

Economic liberalism has been adulterated in respect of three main issues, which are worth noting here, even though very briefly. I refer to the concentration of power and its serious consequences; to the regulatory role of the market; and to social mobility.

The concentration of economic power is imputable not so much to deliberate intention as to the actual operation of the system. It is a consequence of the penetration of the technique of the centres into the social structure of the periphery.

Hence emerge the surplus and the great distributional disparities which, in the framework of structural change, deprive the market of the regulatory role it is held to fulfill for the benefit of the whole collectivity. It does not regulate capital accumulation or income distribution; and these serious flaws are responsible for the exclusiveness of peripheral capitalism, as well as for its conflictive tendencies when, over against economic power, the trade-union and political power of the labour force rears its head. It is exclusive, above all, of the lower strata, which development bypasses. There economic freedom signifies freedom to be poor. Political freedom is nothing but freedom to decide without possessing effective means of discernment. And freedom of thought and speech, like other basic rights, are still a conventional flourish of rhetoric while there are social strata sunk in ignorance and penury, just as the vital concepts of equality of opportunities and social mobility are a chimera.

Social mobility, as liberalism conceives it, carries the most capable and efficient to the top of the system. This undoubtedly may happen; but a great mass of human beings are left on the sidelines, since economic and social power favours some to the detriment of others. There is no such thing as equality of opportunities. And those who surmount obstacles and strata, and find a niche in the system, look upwards, towards the advantages offered to them by the privileged-consumer society, and not downwards, to the level whence they came.

In this context a distinction must be drawn between those fundamental human rights and the way in which their observance has been endangered or distorted owing to the social structure. And this cannot be divorced from the transcendent problem of freedom: freedom for people to do what they like so long as it does not affect the freedom of the rest. This is a time-honoured principle of inestimable human value; and when I say human value I am already defining its true significance — self-determination. Free determination of one's own line of conduct, not obedience to the orders of a superior or supreme authority.

Herein lies the great intellectual and moral tragedy of economic liberalism: not to have perceived that the economic freedom of the individual could not function as its theorists had assumed. One of the gravest mistakes of these theories — indeed, the gravest of all — consisted in accepting economic freedom in the abstract instead of in relation to the concrete system in which it evolves. A change is conceivable in which economic freedom acquires a completely different significance; a significance approaching the connotation ascribed to it in theory.

3. Democratic liberalism in the centres and in the periphery

In the centres the democratization process, in the light of experience, has been finding expression in institutional and juridical changes which attempt to make good undeniable deficiencies. But perhaps the most striking flaw in the process is to be found in the direct and indirect consequences of the interplay of power relations. There can be no doubt that the mechanisms of representative democracy operate with perfect regularity and that human rights are effectively respected. But equally unquestionable are the concentration of capital and the considerable influence on the formation of public
consciousness exerted by vast and complex interests, through their ascendency over the press and other mass media, through subsidies to political parties and through the close liaison between these interests and the political leaders.

In the periphery, the concentration of capital, over and above that of land, gives considerable political power to the upper strata. This, as we have seen, is a phenomenon closely linked to the social structure and the changes therein. During the phases of outward-directed growth politics were a matter for the various groups of the upper strata, with some intervention by the nascent middle classes, combined with intermittent appeals by the rival factions to the relegated masses. In the subsequent course of development, structural changes have increasingly made for the sharing of political power with the lower and especially the middle strata. The upper strata will do everything they can to contain, manipulate and influence the political power of the middle strata and to co-opt their leaders. Nevertheless, the expansion of these middle strata, their increasing concentration in the towns and the development of the mass communication media will end by flinging wide the gates for the advance of democracy.

Through this gateway are released the feelings, aspirations and interests of the disadvantaged strata. All this gives impetus to the political dynamics of these strata and their aspiration to elect their representatives freely and to be elected. Nor does that impetus take long to acquire redistributive significance, with the development of the trade-union and political power of the labour force by which it is accompanied. And thus, essentially owing to structural changes, the institutions of democratic liberalism irradiated from the centres take on a new meaning, unfurl along a new social horizon.

In this, as in other respects, peripheral capitalism acquires some of the characteristics of the centres, notwithstanding the great structural disparities.

This process is apparent mainly in the distribution struggle, and as time goes by gives rise to increasingly crucial political problems. What is more, the struggle is much grimmer in the periphery in view of the great disparities and the notorious insufficiency of material for distribution. And thus, the chronic inflation to which the conflictive tendency is leading breaks out in these latitudes with exceptional intensity. Indeed, in this respect we are ahead of the centres. So to Latin America falls the doubtful merit of being the forerunner!

Thus a very serious problem is posed which representative democracy has not yet been able to resolve. Those who regard democratization as the source of the distribution struggle in the middle strata and the social and political ferment in the lower strata are undoubtedly grievously mistaken. The source lies in the great flaws of the system. I would say rather that the march of representative democracy shows up these flaws, but has neither been able to correct them, nor given any sign of ability to tackle the accumulation problem. But at all events, let us beware in time of inferring that the trouble is due to defects in the democratic process, although they undoubtedly do exist.

4. The use of force, and options in face of the crisis of the system

And now we come to an aspect of the question which it is of paramount importance to understand in order to interpret the dynamics of peripheral capitalism. The distribution struggle cannot go on indefinitely, since the desire to share in the surplus can be satisfied only as long as its total amount increases at least as fast as the global product.

If this limit is overstepped, enterprises will try to raise prices in order to restore the surplus, with the result that the inflationary spiral will be triggered off, or accentuated if older forms of inflation were already developing; all this we know already from experience. And we also know that beyond that limit the surplus cannot be further
promised, not because there is insufficient room to do so, but because the upper strata are not prepared to accept the disruption of the privileged-consumer society. In such circumstances the rules of the monetary game become inapplicable, for inevitably the monetary authority has to resign itself to the inflationary spiral, with all its increasingly disturbing effects, whatever attempts may be made to repress some of its more acute manifestations.

Sooner or later the use of force supervenes. Later, perhaps, rather than sooner, when the distribution struggle is mitigated by the availability of abundant funds deriving from the exploitation of natural resources. Only two major options are open to the use of force: to stifle the trade-union and political power of the masses in order to curb and eventually eliminate the inflationary spiral; or to concentrate the means of production in the hands of the State so that decisions as to the new system and the destiny of the surplus may come from the summit. Needless to say, both options are incompatible with the advance of democratization.

The two options are diametrically opposed, since the first draws its inspiration from the idea of re-establishing, if not exalting, the consumer society, and to that end has recourse to economic liberalism, sacrificing political liberalism. Whereas the second option sacrifices both forms of liberalism, under the guidance of ideas which are essentially divergent from the philosophical source whence they sprang, since the concentration of economic and political power in the hands of the State necessarily means the abandonment of the very principles of political liberalism and the democratic conceptions that stem from them. Accordingly, fundamentally different notions of democratization become inevitable.

Whatever their intrinsic value, however, the influence of these ideologies on the periphery clearly exemplifies the persistent historical phenomenon of ideological dependence upon the centres: a form of dependence which precisely by its doctrinaire fervour helps to discourage the search for authenticity in the major decisions of development.

This is not merely an understandable phenomenon of intellectual irradiation, but also one of deliberate propagation, since in the periphery the broad field of the Latin American region lies wide open to the persistent effort made by both the hegemonic powers—although motivated by different interests—to disseminate their ideologies. That is, ideologies and information selected to bear them out. It is therefore very difficult to gain an objective understanding of the course of events and to comprehend their significance. At the international level we are witnessing the strengthening of the efficacy of the mass communication media, a process which once again brings to light the ambivalence of technique, its capacity to achieve not only positive results but others that are negative and disruptive.

It is by no means easy to overcome this and the other forms of dependence in the praxis of development. But let us also acknowledge that on the intellectual plane there are vast possibilities of seeking authentic options.

The use of force cannot be kept up indefinitely. What is to be done afterwards? Will institutional reforms in the political field be enough? As I have said before, institutional reforms are useless if they are founded on the system’s basic flaws. It is essential to get at the bottom of the system, but invariably under the guidance of those major values without which development would be devoid of human significance.

Such is now the complexity of development and the interdependence of its components. What is needed is the transformation of the system. And the starting-point must be a synthesis in which, beyond the tide of ideologies, certain essential principles of political liberalism are combined with genuine forms of that economic freedom which is an integral and inseparable element in the fundamental concept of
liberty. Economic freedom for individuals and for enterprises — for great enterprises emancipated alike from the power of the owners of capital and from the power of the State, in accordance with new norms of community life. The fact that liberalism has been adulterated in the course of the development of peripheral capitalism must not on any account be taken as a valid justification for sacrificing all it means in terms of human comity. In contrast — and this I have no hesitation in asserting — such lofty ends cannot be attained under a system of imitative capitalism which, as it seeks to develop in the image and likeness of the centres, can survive in the long run only by throwing human rights overboard and giving its blessing to social inequity.
On the first anniversary of the death of José Medina

On 13 November 1978 fell the first anniversary of the death of Don José Medina Echavarria, a distinguished staff member of CEPAL and an eminent thinker on Latin American questions. To mark the occasion, the CEPAL secretariat paid him tribute in a simple ceremony which testified to the appreciation and affection of all his fellow-workers, and during which some of his former colleagues delivered brief addresses. At the close of the proceedings his daughter, Mrs. Nieves Medina Rivaud de Hernández, unveiled a memorial plaque giving his name to the Conference Room of the Latin American Centre for Economic and Social Documentation (CLADES), which forms part of the CEPAL system.

The short speeches made on this occasion referred to one of the problems with which Don José had been most deeply concerned—the relation between development and democracy—and brought into relief the depth and topicality of his thinking. They are all reproduced below in the order in which they were delivered.

Address by Jorge Graciarena

I should like to say a few short words by way of introduction to this gesture of homage to one whom we used simply to call, with a mingling of affection and respect, Don José.

Don José has left a mark on our memories too indelible to have faded with the passage of time. We all miss his many-sided and vital exemplarity. We remember him as an intellectual and a fertile thinker, whose meditations were reflected in words that invariably served both as spur and as signpost to encourage and guide us in our work, so that he became, albeit unintentionally, a veritable authority among us.

We remember him as a fellow-worker and friend, with his unfailing smile, his attitude of kindliness and profoundly human understanding towards everyone's problems.

And no less do we remember him as a devoted servant of the United Nations, completely identified with its lofty ideals, which he strove to fulfill in his thinking, his daily conduct and his entire life. Hence it is that nothing seems more fitting for this commemoration than to think aloud a little in line with the concerns that most absorbingly engrossed his mind in the last few years. And this is a way of keeping alive the fruitful and enriching dialogue into which we used to be drawn by his spoken words and still are by his writings.

The keynotes of Don José’s most recent thinking were the themes of peace and democracy in the framework of the development processes of society. For him development was much more than a mere expanding flow of economic production, and more too than the attainment of higher levels of consumption and social welfare.

Over and above all this, he conceived of development as affording a possibility of building peace and democracy. He saw in it not an end in itself, but the historical opportunity of providing a foundation for the edifice.

The point is that Don José was a profound and genuine humanist. For only the reflections of a humanist like him can interpret and define the links between the meaning of peace under a just international order and the meaning of democracy under a humane social order.

Let us see how this is brought out in the last words of his to be published, which I should like to recall here today. They are the words with which he ended his article on democracy:

"It should not be forgotten... that in the conscious­ness of the western countries still echo the dispas­sionate but resounding words with which John Stuart Mill concluded his deeply-reasoned essay On Liberty: "The worth of a State, in the long run, is the worth of the individuals composing it; ... a State which dwarfs its men ... will find that with small men no great thing can really be accomplished'. This conviction of the classic champion of liberalism ... exalts the supreme meaning of politics and the decisive value of the human element in shaping a lasting social order".

An order—he went on to say— which as a real goal should take pride of place over the reactionary concern with man’s possibilities of technological achievement and purely material satisfaction on earth. The civilization whose dominant care is only for what is instrumental and material is indeed doomed beyond hope.

Interpreting his message—and taking up the thread of many of our conversations on such topics—, I would add that the human condition neither fulfills itself nor exclusively consists in its purely material elements. There is in man a deepseated sense of justice which goads him on to higher things and which can express itself in social terms only through solidarity with other men and other peoples, in peace and democracy.

Address by Marshall Wolfe

During the years I have known Don José Medina I have been inhibited from trying to comment on his works by fear of committing sins for which he manifest­ed a consistent although courteous distaste: the be­labouring of the obvious and the reinvention unawares of
propositions that are already in the public domain—what he once labelled 'Adamism'. Don José assumed an obligation to have read and remembered everything relevant that had been written about the questions to which he addressed himself, and expected his reader to have made some effort to do likewise. Thus his writings are imbued with awareness of the history of ideas and acknowledgement of their sources without any display of erudition in the form of footnotes. And what one notes on a first reading as an omission deserving comment one is likely to find on a second reading discreetly mentioned and then set aside as something too well known to deserve elaboration, or a theme to be discussed at another opportunity.

By a series of historical accidents Don José found himself during more than two decades thinking and writing in an institutional setting that demanded practical and preferably simple answers to complex questions, that formulated the questions in terms he would not have chosen, such as the identification of 'social obstacles to economic development', and that was preoccupied, by its very nature, as much with the saleability of ideas to governments as with their validity. The resulting tension was probably at times equally frustrating to Don José and to his colleagues, but on balance it was fruitful both for him and for the institution. It forced him to write a good deal more than he otherwise might have, in view of his modesty and his possibly overdeveloped awareness of the difficulty of saying anything both original and important, and to write on topics such as development planning that have rarely been considered in such a broad sociological and philosophical perspective. For CEPAL and ILPES, his aversion to simplifying or contributing to how-to-develop prescriptions, his critical approach to disciplinary pretensions and methodological or terminological novelties, and his confrontation of development aspirations simultaneously with historical realities and with permanent values of freedom and democracy, provided a much-needed corrective to the desperate temptations towards superficial originality, conformity and dogmatism.

The three papers that Don José wrote in the last year of his life set the future of Latin America in a world historical perspective. Typically, they recognize the legitimate contribution to its interpretation made by several different currents of thought, including the catastrophist and the utopian, but discount the likelihood of generalized catastrophe or of similarly generalized overnight transformations of national societies and the world order for the better.

These papers show an awareness, foreign to most discussions of 'another development' or of new international economic orders, of a great game in progress whose players treat peoples and countries as pawns—their livelihood and their freedom used to make propaganda points, their development forced into moulds corresponding to the perceived interests of the ideological dogmas of the players. However, the papers do not concern themselves with denunciations of this reality, nor assert that it is the only reality within the international order, nor demand its rapid and complete elimination as a precondition for authentic development. They offer hope of changes in the game, in the direction of 'co-operative détente' and stable peace, that will widen the range of choices open to national societies of all kinds, but suggest that an ideal world order is unlikely to emerge; co-operative détente will open the way to different expressions of ideologies and interests, less dangerous for humanity as a whole, but not necessarily easier to master for societies such as those of Latin America. The papers imply, without exhorting, that men of goodwill should reconcile themselves to striving for peace, democracy, and development with a minimum of illusions and a maximum understanding of real historical trends and real forces contending in the world. They also imply that men of goodwill are not going to achieve such understanding without testing their own convictions through serious study of a wide range of different interpretations of what is happening.

The vision of democracy in these pages is also imbued with respect for the legitimacy of the real, with a refusal to equate adherence to permanent values with doctrinaire purity. Don José had lived long enough and observed enough reversals of fortune to suspect that the world will never be safe for democracy nor for any of the alternatives to democracy. Pluralist democracy, in his pages is a historically-conditioned phenomenon, embodied in institutions with inherent limitations and propensities to deformation, permanently precarious, unlikely to achieve rapid and rationally-planned transformation into anyone’s vision of the Good Society, but susceptible to positive stimuli as well as disruptive impulses from such visions, and probably destined to re-emerge as an imperfect reflection of a permanent human aspiration after each defeat and negation. Don José would never have thought of asserting, in the terms of various international declarations, that democracy or development will not be realities until every human being enjoys all the rights with which these declarations have endowed him, but his strain of scepticism did not make him set any the less value on the striving for such a goal.

Address by Aldo Solari

As Marshall Wolfe recalled a moment ago, one of Don José’s constant preoccupations concerned the difficulty of saying anything that might have some innovative significance, that might represent some real contribution: a very understandable preoccupation in anyone who is, as he was, fully aware of the vast amount of thinking that has accumulated around the most diverse subjects. Perhaps, therefore, it would be better to say nothing. But since something I must say, I should simply like to note a few points relating to the dialogue
which Don José kept up throughout his life on the problem of democracy.  

While it is true, and probably not a matter of chance, that in the last months of his life he wrote a series of papers on democracy, it is equally certain that questions bearing on the subject crop up in all his writings, and that throughout all his adventures of the mind he was concerned with the problem of the relation between democracy and economic development, with that of its relation to planning, with self-interrogation as to the very nature of the democratic régime. And of this longstanding and constant preoccupation testimony is afforded by countless texts such as “Economic development in Latin America: sociological considerations”, which dates from many years back, and in which it is asserted that there can be no State, properly so called, without the supremacy of civil power.

If some of Don José’s basic ideas on the problem of democracy are examined, even though in very brief, summary and perhaps over-simplified fashion, they would seem to contain elements relating to an analytical postulation together with others clearly implying a valuative postulation.

There is an analytical postulation which looks back to the historical experience that for Medina was always of such decisive importance; which repeatedly stresses, in several texts, the fact that democracy, or its justification and legitimation, preceded and is independent of the whole problem of economic development and the advance of capitalism towards the creation of an industrial society; which emphasizes Latin American tradition in this respect, with its inheritance of a Western tradition as regards democracy; which conceives of the State as being, \textit{inter alia}, the setting in which a number of pluralist interests and aspirations confront one another, giving rise to the necessity of choosing, of espousing one of these lines of confrontation and accepting this as a decision —even though a provisional one— adopted by society through the State. Hence his ideas, which I am only going to glance at here, on what might be termed the elective affinity between planning and democracy.

The essential conception is that there is no better or more fitting régime for planning than democracy, and that, at the same time, no instrument can be of such good service to democracy as planning, inasmuch as a democratic system requires mechanisms whereby rational options can be arrived at, as befits the higher stage in social life that such a system represents, and democracy alone can provide the mechanisms for participation in decisions and in their implementation which make the planning process a real component of social life. And it is at this point, I believe, that the analytical fuse with the valuative considerations.

Obviously, while in the work of Don José there is a dialogue concerned with democracy, there is also a constant dialogue on the problem of reason and of the nature of reason.

In the last analysis, a democratic utopia presupposes that rational societies are possible and that a régime like democracy tends to place social rationality on a firmer footing by making it systematic. This implies, \textit{inter alia}, maximum information, maximum participation and maximum capacity for confrontation of divergent interests and ideas. And in this sense, democracy is the system which comes closest to meeting the requirements of rationality. But rationality may mean quite different things. On the one hand, democracy may be placed at the service of other rationalities; that is, from the standpoint of instrumental reason, it may be regarded as the most efficacious instrument for securing economic development or attaining other objectives of a similar type. The idea expressed by Medina, who thought a great deal about this problem of economic development and democracy, is that the ultimate justification of democracy does not lie in its being a system that runs parallel to economic development, or accompanies it, or favours it; it is not a régime that is legitimized by instrumental reason, although neither does it preclude that possibility; it is one that is justified at a deeper level, by practical reason. In the last analysis, it is on the existence of a system of values adopted as the best possible that democracy is based, and, in that system of values, the spread of rationality is one of the essential elements, which is founded, ultimately, on the recognition of man in every man and by all men. Democracy is, like any other rationality, a creative effort and also a constant apprenticeship. Hence it is that from Medina’s writings and from any conversation one may have had with him it can be clearly inferred who and what are enemies of democracy, even though at times unwittingly. Its enemies are dogmatism, intolerance, the technocratic spirit, all those who believe, in short, that they are possessors of a revealed truth—or not revealed, but at any rate incontrovertible— whereby to resolve the problems of human society. And it is equally clear that democracy has a twofold dimension which at bottom represents a purely analytical distinction: democracy as an individual way of life and democracy as collective behaviour. In essence these two dimensions are one and the same, or constitute two sides of the same medal. There can be no democracy if the individuals who make up a society are not capable of the rationality necessary for acting under the democratic system, if they are incapable of the toler-

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\footnote{have shelved, in this address, very important questions relating to Medina himself and to his thinking which I have discussed at length, alone or in collaboration with others, elsewhere. See Aldo E. Solar, Rolando Franco and Joel Jutkowitz, \textit{Teoría, Acción Social y Desarrollo en América Latina}, Siglo XXI Editores, México, 1976, which the authors dedicated to Don José; and Aldo Solar (compiler), \textit{Poder y desarrollo en América Latina. Estudios sociológicos en homenaje a José Medina Echavarria}, Fondo de Cultura Económica, México, 1977, Introduction, pp. 7-47.
ance and the spirit of free discussion which it demands. In its turn, the system must be able to organize itself by training its individual members to approach as closely as possible to maximum rationality; and at the same time those individuals, in so far as they can approach this maximum, give fuller meaning to the democratic system of social life. And thus an endless process of mutual causation is created. Medina was not unaware, to be sure, that in this conception too democracy appears as something necessarily imperfect, since the complete rationality of the human race and the full materialization of a society of free and rational beings is an aspiration which is utopian in the best sense of the word, and which we can only approach without ever attaining it, inasmuch as the nearer to it we draw, the more are the new requirements that the process itself brings to light. Democracy is a régime that does exist, but never in its consummate form. Paradoxical as this may seem, it is not something whose objective is predetermined—except simply as the course to steer, not the landfall. And that is why democracy implies a necessary imperfection, a constant striving after something which is utopian in its very nature, and in that utopian nature finds its most cogent legitimation; for only under such a régime and in such a utopia can man achieve the complete self-fulfilment which, in contrast, under all other systems must inevitably be frustrated.

Address by Adolfo Gurríer

In reading the works of Don José one cannot but feel that they are the product of a mind rich in nuances, open to the most diverse preoccupations and always ready for suggestive and thought-provoking digression. This impression corresponds to the outer side of the tapestry that he tirelessly wove for many years: variegated, colourful, changing in material and in style.

Such is the obverse of the tapestry his intellect created. But a careful look at it will discover the underside of the weft, and it will be seen that behind the changes in material and style, behind the aesthetic colouring and the erudite digressions, there is a line of thought that runs like a continuous thread through all his studies, since all of them are variations on one main theme.

What is this strand, this thread that subtly knits up all his intellectual endeavours throughout his life? In my opinion it is, to put it briefly, the role of reason in human life.

Nurtured in a climate of crisis, Don José’s thinking was permeated through and through by its influence: the influence of the profound crisis that marked the first half of the century. Not only an economic but also a social, cultural and political crisis; a transformation of life styles, of patterns of thought and of the forms of political organization.

This awareness of crisis was the starting-point of his thinking and was always there as its background. And it is in the midst of that crisis that he asks “Is the intolerable state that our civilization has reached susceptible of rational cure, or must we, in despair, cast ourselves upon the mercy of blind forces?”... “How are we to find our way amid this chaotic disorder? How are we to set our history on its course again without destructive upheavals?”

And he answers that a reconstruction of society is both necessary and possible, and that in this reconstruction reason must play an essential role. And when he speaks of reason, he means the intellectuals, who must be its mouthpieces par excellence. Upon them is incumbent that heavy obligation which in one of his early books he called the inescapable ‘responsibility of intelligence’.

Reason must play a fundamental role in the reconstruction of societies in this critical age, but what are we to understand by reason?

In his earliest writings Don José repose great confidence in scientific reason. He accepts the idea that science is constructed by means of a ‘method’ and an ‘attitude’ which are based on a conception of what he describes as formal or instrumental reason. Formal reason, envisaged as a subjective capacity of the intellect, can help us to dominate the natural and human world, to select with maximum efficiency the means to attain the ends we have proposed, to foresee the consequences of our actions.

The usefulness of this type of reason for the rational cure of society is considerable, but Don José is quick to point out its limitations and dangers. Its basic limitation consists in its vaunted ‘valuative neutrality’. For this formal reason will never acquaint us with the ‘meaning’ of the world in which we live, its true essence; nor can it show us what we have to do. ‘Objective’ knowledge, ‘absolute’ truth, ‘essential’ reality, ‘desirable’ values, are shy, elusive creatures, which cannot be caught by formal reason. Can formal reason, then, be enough for us if it gives us no guidance as to what we must do?

Furthermore, formal reason involves a serious danger which consists in that after facts and values, theories and normative decisions have been sorted out, and the choice of ends has been left in the domain of the irrational, it may overstep its limits and impose the principle of efficiency on a society that has lost its bearings.

Conscious of formal reason’s limitations and dangers, Don José explores other currents of philosophical thought, and so comes to material reason. Reason thus conceived is not merely a power of the human intellect but a principle inherent in reality, present in the objective world, both natural and social. A proper grasp of material reason will enable man not only to attain knowledge of the true essence, of the real nature of things, but also to acquire the criteria which will guide

NOTES AND COMMENTS

his conduct aright. To act rationally implies, in the light of this conception, acting in harmony with that vaster order in which man and his purposes are included.

Both types of reason are necessary, both have their merits and defects when they are conceived as cognitive and political principles.

The conception of formal reason opens up a path of tolerance and effort which will lead through experience to a provisional truth. It impugns innate ideas, revelation, self-evident principles, and asserts the predominance of experimental reason.

Formal reason is a dissolvent of all kinds of dogmatism, but on the plane of values and of ethical and political decisions it forbears, giving precedence to the free expression of will. This 'valuative neutrality', which for its adherents is a guarantee of freedom, for its critics is 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. Medina was tortured by the spectacle of groups and classes destroying one another 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 upon him—, while many intellectuals, in the midst of this strife, refrained from offering solutions on the grounds that they respect the valuative neutrality of formal reason; and that is why he has 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 is not the appropriate instrument wherewith to overcome the crisis.

Again and again, in various forms, the conception of material reason recurs in Western thought to fill the tremendous void left by formal reason at the level of rational determination of ends. In bridging that gap satisfactorily its greatest promise lies, but Medina is not unaware that always inherent in it is the very danger which it was the function of formal reason to avert: material reason may mask behind an appearance of rational or scientific knowledge and decisions what is in fact the product of mere irrational and interested determinations. The history of the past and present forms of totalitarianism, with their pseudo-scientific doctrine in which they seek justification, is the supreme endorsement of an attitude of the utmost caution towards the spread of material reason. How many political doctrines believe that they possess absolute truth? How many maintain that their reason affords them the means of attaining definitive truth, whence they derive not only objective knowledge of reality but also the principles whereby action must be guided! The commonest epistemological corollary of this belief in the attainment of absolute truth is dogmatism, and the political corollary is usually absolutism; if we are sure of possessing the truth, why not impose it on others, who, misled by their own interest or obscurcated by ignorance, will not see it as it is?

During his many years of meditation on the subject, Medina over and over again faced up to the problems involved in the two types of reason, always in quest of the most appropriate means of rationally orienting social life.

At first he reposed his confidence in the rationality of science; later, when he recognized the limitations of this type of rationality —because of its inevitable 'valuative neutrality'— he attempted to integrate it with material rationality, but inserting the latter into 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.

Thus his proposal of democratic development planning gradually takes shape. The choice of development objectives must be made through a rational process of discussion, comparison and perhaps combination of the various options; democratic institutions offer the most appropriate setting for this process of selection, if the aim is to avoid the pitfalls of authoritarianism which always lie in wait along the path of material reason.

Once the objectives of development have been decided upon by democratic procedures, planning constitutes the most suitable instrument for attaining them, the most appropriate expression of formal reason in development.

But when Medina propounded the need for combining the two kinds of rationality, when he proposed democratic planning, and when he analysed the economic and social conditions in which it can exist and develop, he knew that he had come to the very heart of this own cognitive and political utopia. The rational conduct of human affairs is possible, since rational decisions can be reached on the technical and political levels, but it is indispensable to create such conditions as will allow of the prevalence and continuous operation of both forms of rationality. 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'. The destinies of democracy and development are one with the destiny of reason.

Address by Enzo Faletto

All those who have had cause to refer —especially of late—to the works of Don José Medina have laid stress on his constant concern with the problem of politics, and particularly with the question of democracy: a concern which is not only a keen intellectual interest,
but is deeply-rooted in personal and as a rule painful experiences. Suffice it to cite two of these: the collapse of the Weimar Republic, and, the most personal of all, the Spanish Civil War.

Nevertheless, it is typical of Don José that he should have constantly linked those experiences and that concern for Spain and Europe with an endeavour, of decisive importance for many of us, to probe the destiny of this Latin American continent.

Preoccupation with Europe, preoccupation with Spain and preoccupation with Latin America, in which heartfelt concern for their destinies is combined with the intellectual rigour proper to a zealous effort to understand.

Forgive me if I indulge in a personal reminiscence: a good many years ago, when I decided to devote myself to this thing we call sociology, Don José gave me a direct warning: “You seem to want to try your luck in hell; go ahead and do it, but with your eyes open!”

The note of concern so often perceptible in what he wrote never prevented him from keeping his eyes open, and that is why he could always discover in the most thorny and difficult problem a seed of hope.

His latest writings on the future of democracy, upon which we are commenting here are almost all marked by this tone.

Another decisive and invariable feature was his acute feeling for history. The themes which Don José propounded, and which have been followed up by many —not to say almost all— of us in this continent, were approached from that standpoint. It is from him that we have taken the idea of the independent historical origins of democracy.

In his own words, "No essential relation links the development and historical consolidation of the modern constitutional State and its subsequent democratic structure with the specific conceptions of the capitalist system, and consequently neither the rule of law nor the institutional crystallization of the egalitarian aspirations of democracy has been formulated or defined as a function of what we now call economic development. Guarantees of the public and private rights of the individual date farther back than concern for the growth of the economic system".

And a little farther on: “The history of Europe is a clear case in point, since poverty was no bar either to the ardent desire for democracy or to the gradual improvement of the footing on which it was established”.

Later, to lay forceful emphasis on these points, he says: "Neither the rule of law nor the concept of democracy can be reduced to the status of mere instruments; and while the times we live in do not, perhaps, permit a return to the original justification of these two institutions, it would at least seem necessary to make full use of all that still remains alive in these beliefs in consonance with the various national creeds ... and initiate a renewal of a political 'will' open to the anguished protest of needless frustrations. That is to say, a 'will' which really 'wants' to transcend instrumen-
tal rationalism and once again found the legitimacy of democratic rule on the supreme values of a form of human society which has a real significance for man and his community”.

But we also want to take up one of his constant questions: which is the group or social class capable of laying such a task upon itself and upon others? And to his encouragement and intellectual support we owe what is the aim of some of us today: to rediscover in the history of popular movements in our countries the social prop of democracy.

For if democracy has been stigmatized as unilateral and spurious, the intention of popular movements consists precisely in ridding it of this unilateral and spurious character. But this means that the aspiration to true democracy must be preserved and must pervade all action.

It is part of the history of Latin America that the popular sectors have sought to introduce a form of democratic social comity, while at the same time endeavouring to discover the meaning of democracy in their own existence.

It is through their action and behaviour that the popular sectors have given full expression to the meaning of democracy, and, in broader terms, to the meaning of the history of our countries. Which presupposes their existence as figures in that history, not as mere masses.

If we are to envisage, as is urgently necessary today, a democratic option which will accord the popular sectors active and increasing participation, history must be reconsidered from the standpoint of the people. It must be re-interpreted in such terms that the popular sectors are not reduced to objects, but exalted to subjects, of history.

Don José himself spoke of the "supreme meaning of politics and the decisive value of the human element in shaping a lasting social order" such as "is the real goal of futurological studies, which give it pride of place over the prognostication —in the last analysis 'reactionary'— of man's possibilities of technological achievement and purely material satisfaction, his income and resources, on earth. Any civilization which is dominated by concern only with these is indeed doomed beyond hope".

Address by Raúl Prebisch*

There can be no doubt that Medina's ideas sank deep into many of us, influencing us subtly, almost like something in the air we breathe. The respect command-ed by his vast erudition and intellectual honesty was extended to his ideas, which were always worthy of special consideration. Yet, on the other hand, they have not penetrated our patterns of thinking to such an extent

*Read by Enrique V. Iglesias.
and in such great depth as they deserve. What is more, I am sure that a number of us in this institution would be staggered if we were asked to sum up in a few words Don José’s thinking on any of the basic questions with which he was concerned. There are many reasons for this, but I should like to draw attention to two of them.

In the first place, Don José, who was the very opposite of an imposing personality, offered the product of his intellectual effort with the most unassuming modesty and sought no platform or forum from which to disseminate it. One might say that his writings gained fame in his own despite, since he disliked not only praise but even personal references.

Secondly, let us frankly admit that many of his essays were not and are not easy reading for those who have no specialized training in philosophy and sociology. His conception of the labour of the mind compelled him to investigate, present and critically analyse in his writings all opinions relevant to the topic with which he was dealing, and this makes understanding of his work very difficult for the uninitiated reader or for one who lacks the resolution to follow Don José over all the rough terrain into which his intellectual curiosity led him.

In any event, whatever the cause of the obstacles to the dissemination of Medina’s ideas, what is certain is that we must return to his writings to extract from them the riches they can give us. The task is not easy, but the reward will be generous. It is a task that is being performed, at my suggestion, by Adolfo Gurrieri, who has gone deeply into the thinking of our admired mentor. I hope that this indispensable collaboration of Gurrieri’s may appear in the eighth issue of the Review.

Among the many topics which Medina explored while he was working with CEPAL there are some that are specially deserving of this rediscovery.

In the first place, we must carefully re-read those early CEPAL texts in which he diligently sought to lay the foundations of the sociology of economic development, or, more generically, of an integrated conception of development. He did so under the pressure of time—or of the ‘irritating impatience’ of the economists, as he wrote somewhere—but his efforts yielded fruits which must not be thrown away. I myself have reached the conviction that we cannot be satisfied with an economic theory of development, and that it must be at least sociological and political as well.

Furthermore, we must revert to the generic question of the relation between economic development and democracy. A review of Medina’s writings will show that he—like many of us—was guided at first by great confidence in the possibility of attaining economic development through the classical liberal formulas—what he calls the ‘Weberian paradigm’—only to lean increasingly later on towards the conviction that this paradigm had been invalidated by the real facts of peripheral development, and that new formulae should be adopted in keeping with that reality, with Latin America’s potentialities and aspirations.

Similarly, he never believed that democracy was a by-product of economic development, and still less that it was easy to achieve. On the contrary, conscious of its practical difficulties, he carefully analysed all the facets of its crisis. But neither did he ever lose hope, and even in his last writings he continued to contemplate the possibility of putting into practice a planned development in which the representative mechanisms would be the forums in which opinions are analysed and decisions adopted. In his own words, he would have liked to see tried out in Latin America a parliamentary political régime which at the same time would be the efficacious organ of democratic economic planning.

This political hope which Medina cherished is in my opinion impossible to fulfill without a profound social and economic transformation of our peripheral capitalism; but that is a topic which is obsessing my thoughts, and on which I feel the need for a sustained dialogue. The dialogue I hoped to have with Don José I can never have it now; but his writings remain, the mirror in which we can still see his profound and lively intelligence reflected.

Address by Enrique V. Iglesias

In bringing this commemorative meeting to a close, I am setting the seal on the desire of those many here present to pay Don José the tribute he deserves, as one of the major and most significant figures, in terms of intellectual value, that have passed through this institution and through Latin America. I am sure that the present ceremony would have awakened in Don José a silent protest, because it would be doing violence to one of his most attractive features, his boundless modesty, which, as Raúl Prebisch has just said, was apparent to all and which everyone found touching. The friends, disciples and colleagues who have spoken today have described Don José’s intellectual influence; but I should say they have given us only a glimpse of it. It underlay ideas of great importance in this institution, constituting a new and revitalized force in CEPAL’s thinking, which helped to create sensitiveness to social problems, and was a guiding light to many in this Commission, so that our presence in Latin America came to be of something more than merely economic significance, and the question of development was invested with all its profound human and social connotations.

As has been rightly observed by those who have preceded me this evening, much remains to be sought out and explored in Don José’s thinking, if it is to be properly known and disseminated. Its significance will never be sufficiently evaluated on an occasion like this; it will have to be left for study, analysis, publication, and discussion at other meetings where we will continue to look more deeply into the legacy he has left us.

I should merely like to recall one or two of his personal traits which made a profound impression on me. A couple of years ago he came back from Spain, telling me that his home was where his friends were,
and so he returned to this institution, which belonged to him by right. And it was then that I discovered two new facets of his personality: the never-failing freshness of his intellect, which gave the lie to his age, and that stubborn loyalty of his to certain values of fundamental importance in his life. That freshness he displayed in his very last writings, since he wrote few papers imbued with so much inspiration and enthusiasm as those relating to democracy, which is today, undoubtedly, one of the major preoccupations of our America and of the whole world.

The prevalence of democracy as a life style whereby man could rise above himself was not, however, the only subject which engrossed his attention. I had long talks with him in which he introduced a dimension to which we have not given sufficient importance: his concern for the future. With seven decades of life behind him, Don José was the member of this institution to whom man’s future seemed to matter most, and who opened up for us new and unexplored areas of thought which often, on the frontiers of the imagination, and with great and unimpaired idealism, took in the future of the human race. At the close of his life Don José was still concerned for that future, for things which often, to those of us who are struggling with the specific problems of a development model or the vicissitudes of an economic policy, seem esoteric or romantic. He wanted to bring us into touch with this concern of his for the future of mankind, which in our own institution has not yet received the attention it should.

Don José also taught us another lesson which has been eulogized this evening, with his unswerving loyalty to the values he defined throughout his life: the freedom of man on all levels, the use of reason as a means of understanding in societies, justice without fanfares. Don José faithfully defended these values, dispassionately, through the prevalence of good sense and above all through his great confidence, noted a moment ago by Gurrieri, in reason as a fundamental value.

All this leads me to repeat what I had occasion to say on bidding farewell to his mortal remains: that he will be remembered by us as one of those who have given most to this institution, not only in the realm of ideas, but by the example of his life, the example of his mature and loyal personality.

Mrs. Hernández: today we want to pay an exceptional tribute to your father by naming a Conference Room after him, for nothing of the kind has ever been done in this institution before. The Secretary-General welcomed the idea, and it gives me infinite satisfaction to put it into execution. Please convey to your mother and your brother assurances of the great affection with which we have recalled Don José in this ceremony, and tell them that in giving your father’s name to a room in this building —a room where undoubtedly those who are present here today and those who will come after us will do a lot of talking and a lot of discussing, as your father used to say—we are attempting, in a modest and simple gesture, to keep alive among us the spirit of Don José. It is our wish that the image and the remembrance of your father, often to be evoked in the Sala Medina —as the room you are coming with us to inaugurate will be called henceforward—may inspire all of us and those who will succeed us. I now invite you to come with us all to unveil the plaque which is to perpetuate Don José’s name in the Sala Medina. Herewith I declare this commemorative meeting closed.
On the occasion of the thirtieth anniversary of the inauguration of CEPAL's first session, the Executive Secretary received a number of messages from Governments, State and private institutions and prominent political and academic figures. Since it is impossible to reproduce all the messages, we are offering only a few below, which are representative of the wishes and sentiments expressed.

**Argentina**

It is a pleasure for me to congratulate you on the thirtieth anniversary of the establishment of the Economic Commission for Latin America, a United Nations body of incontestable importance for the development of our continent.

Jorge Rafael Videla
Lieutenant-General
President of the Argentine Nation

**Barbados**

On behalf of the Government and people of Barbados and on my own behalf I wish to thank you for the kind greetings which you have conveyed and would like to take this opportunity to extend our heartiest congratulations on the occasion of the celebration of the thirtieth anniversary of the creation of the Economic Commission for Latin America.

I would also like to assure you that the Government of Barbados will continue to support the work of the Commission as it strives to co-ordinate policies to promote economic development in the Latin American and Caribbean region.

Minister Forde
Barbados

**Brazil**

On the instructions of the President, Ernesto Geisel, I should like to communicate to Your Excellency our best wishes for continued success in your most important duties.

With cordial greetings,

Antonio F. Azeredo da Silveira
Minister for Foreign Affairs
of Brazil

**Canada**

On behalf of the Government of Canada, I would like to congratulate you, and through you the members and staff of the Economic Commission for Latin America, on the occasion of CEPAL's thirtieth anniversary.

Over the years Canada has been happy to give its support to the many links between my country and CEPAL. With renewed wishes from the Government of Canada for all success in coming years.

Don Jamieson
Secretary of State for External Affairs

**Colombia**

The President of Colombia, Alfonso López Michelsen, expresses appreciation for your kind recognition of the support provided by Colombia to the efforts of the United Nations Economic Commission for Latin America, reiterates to you our determination to continue our co-operation in the promotion of the common ideals of the hemisphere and sends you cordial greetings with the assurances of his highest consideration.

Indalecio Lievano Aguirre
Minister for Foreign Affairs
of Colombia

**Costa Rica**

On the occasion of the celebration today of the thirtieth anniversary of the establishment of CEPAL, the leading manifestation of the United Nations' presence in Latin America, the President has instructed me to affirm to you on his behalf the intention of our Government to continue its support for the common ideals of justice and progress and the search for co-operation and constructive dialogue both among the countries of the region and between them and the remainder of the international community. With our best wishes for the continued success of your important organization, accept, Sir, the assurances of my highest consideration.

Rafael Angel Calderón Fournier
Minister for Foreign Affairs
Costa Rica

**Cuba**

On behalf of the Government and people of Cuba I have pleasure in congratulating you on the thirtieth anniversary of CEPAL and in expressing to you our appreciation for your efforts in studying the economic problems of the region and in promoting dialogue and discussion on the most pressing problems of the world today, in support of the legitimate rights of the countries of Latin America and the pursuit of justice and economic and social progress in them, in close solidarity with the other
under-developed countries. I should like to assure you that in the future, as in the past, we shall continue to offer our warm support to CEPAL in order to achieve genuine emancipation for our America. With friendly greetings from.

Carlos Rafael Rodríguez
Vice-Chairman
of the Council of Ministers
and the Council of State

Dominican Republic

On behalf of His Excellency the President of the Republic, Dr. Joaquin Balaguer, I should like to inform you of the pleasure which we have always experienced when we have been able to co-operate with the organization which you so effectively lead in plans which are indispensable not only for the development of the country but for the hemisphere.

Accept our sincerest wishes for continued success on the occasion of the thirtieth anniversary of the establishment of the Economic Commission for Latin America (CEPAL), which has won the respect of all of Latin America.

With the assurances of my highest consideration,

R. Emilio Jiménez Jr.,
Vice-Admiral
Secretary of State
for Foreign Affairs

Ecuador

On the occasion of the thirtieth anniversary of the establishment of CEPAL, I have pleasure in communicating to you the gratitude of the Government of Ecuador for the important work which the Commission, under your distinguished leadership, has been carrying out to promote the development of the region. At the same time I should like to express the hope that the enthusiastic solidarity of the continent which has become apparent during the three decades of CEPAL's work will be crowned with success and will vigorously promote the welfare of our peoples. With my highest consideration.

Alfredo Poveda Burbano
Vice-Admiral
President of the Supreme Government Council

El Salvador

On behalf of the people and Government of El Salvador the President has pleasure in expressing through me the warmest appreciation for the outstanding and praiseworthy work carried out by CEPAL in its thirty years' existence for the benefit of Latin America and particularly for El Salvador. The President has also instructed me to communicate to you and to the other staff serving in CEPAL his warmest congratulations on the occasion of the anniversary. I avail myself of this opportunity to renew to you the assurances of my highest consideration.

Roberto Antonio Mendoza Jerez
Under-Secretary for Foreign Affairs
El Salvador

France

On the occasion of the thirtieth anniversary of the establishment of CEPAL I should like to convey to you my sincerest good wishes for yourself and for the organization which you so successfully lead.

France hopes for a continuation of the exemplary action carried out by the Commission to promote economic development and to help to raise the standard of living of the peoples in your region.

I should like to add that, more than any other United Nations regional commission, CEPAL has highlighted the social aspects of development, and for many years has oriented its actions in that direction. Finally, CEPAL is a particularly valuable centre for dialogue between developed and developing countries in their search for greater openness to the exterior.

As a member of CEPAL France is pleased to be able to participate in the work of the Commission, and will, I assure you, continue to offer you its full support.

Valéry Giscard d'Estaing
President of France

Guatemala

The Government of Guatemala offers its congratulations on the forthcoming celebration, on 7 June, of the thirtieth anniversary of the establishment of the Economic Commission for Latin America, and requests you to communicate them to the officials and other staff who through their efforts have made it possible for CEPAL to achieve the objectives and aims for which it was set up. I avail myself of this opportunity to renew to you the assurances of my highest consideration.

Adolfo Molina Orantes
Minister for Foreign Affairs
THIRTIETH ANNIVERSARY GREETINGS

Mexico

On the occasion of the thirtieth anniversary of the Economic Commission for Latin America the Government of Mexico sends its cordial congratulations on the contributions made by your organization in promoting economic thought and assisting the countries of the region.

With my highest consideration.

José López Portillo
President of Mexico

Panama

On the occasion of the anniversary of the establishment of the Economic Commission for Latin America, I should like to express to you on behalf of the Government and people of Panama our warmest congratulations for the extraordinary work carried out by the Commission in strengthening economic relations between countries within and outside the region, and also for the substantial assistance rendered to Latin American governments in promoting economic development in their countries and raising the standard of living of their peoples. In the case of Panama, CEPAL's technical studies on the economic projections of the Panama Canal represented a strong lever in the negotiations which culminated in the conclusions of new Canal treaties between Panama and the United States.

We reaffirm to CEPAL our best wishes and renew to you the assurances of our highest consideration.

Nicolás González Revilla
Minister for Foreign Affairs

Peru

On the occasion of the thirtieth anniversary of the establishment of the Economic Commission for Latin America, it is a pleasure for me to forward to you the cordial congratulations of the Government and people of Peru and our best wishes for the successful continuation of CEPAL's work in seeking solutions to the economic and social problems facing our region.

I take this opportunity to renew to you the assurances of my highest consideration.

General Francisco Morales Bermúdez Cerruti
President of the Republic

Spain

On behalf of the President, it is my pleasure to congratulate you, and through you the entire organization, on the occasion of the thirtieth anniversary of the Economic Commission for Latin America. CEPAL enjoys a very special status in the world today. It has been and remains a significant contributor to the still evolving vision of a new international economic order. From the days when Dr. Raúl Prebisch served as its Executive Secretary, CEPAL has been particularly important in defining and promoting the interests of the developing countries. Largely as a result of CEPAL's pioneering research and publications on the relation-
ship between the developing countries and the world’s trade, finance, and aid structures, the United Nations Conference on Trade and Development (UNCTAD) came into being.

We wish to applaud your efforts to orient CEPAL’s priorities toward the goal we all share — development with equity and social justice. Your plans to reorganize the CEPAL secretariat merit the support of all member nations.

We in the United States Government wish to support and co-operate closely with your efforts towards alleviating critical poverty and fostering fruitful debate in an international economic order which can bring the greatest lasting benefit to the greatest number of people.

A new unity and a new hope came out of the seventeenth session of CEPAL in Guatemala. We stand ready to build on the consensus that characterized the Guatemala biennial and work together in furtherance of the goal of economic development with social justice.

Once again, please accept our heartfelt congratulations on this important day.

Sincerely,

Cyrus Vance
Secretary of State

Uruguay

On the occasion of the thirtieth anniversary of the establishment of the United Nations Economic Commission for Latin America I have great pleasure in forwarding to you on behalf of the Government and people of Uruguay our sincerest congratulations for the effective work carried out in the interests of the economic and social development in the region.

The praiseworthy effort to identify and define the economic and social reality of Latin America, both as regards its process of internal evolution and the integration of the region in the international economy, merits our country’s support for the common ideals of justice and progress.

I hope that the work of the Commission will continue in future to enjoy the unconditional support of the Member States in the light of the principles of the United Nations which created it.

Aparicio Méndez
President of the Republic of Uruguay

Venezuela

I feel very honoured to express to you the pleasure of the Republic of Venezuela and my Government on the celebration of the thirtieth anniversary of the establishment of CEPAL, whose role in its thirty years of existence has been of great significance for Latin America. I should like to affirm to you the faith of my country in what CEPAL represents and in the value of its objectives, for we are convinced that only through concerted regional action in the political, social and economic field can we find the true road to peace, international justice and the welfare of our peoples. The gap between the developed and developing countries, far from closing, today carries the threat of new disputes which, if they are to be overcome, call for joint action by all nations, and in this task facing the international community we are persuaded that CEPAL will have to play a substantial role in the search for new principles and arrangements for international economic co-operation on a basis of equity and justice which will permit the early establishment of the new international economic order.

On behalf of Venezuela and on my own behalf, I hope for continued success for the work of the Commission, to which you yourself, as Executive Secretary, have made a significant contribution.

Yours faithfully,

Carlos Andrés Pérez
President of the Republic of Venezuela

Organization of American States

On behalf of the General Secretariat of the Organization of American States and on my own behalf, I should like to communicate to the Economic Commission for Latin America our warm congratulations on thirty years of fruitful work of benefit to the region.

In expressing sincerest wishes for complete success in your future work, I have pleasure in confirming to you that you can count on full co-operation from the organization I head in all efforts designed to contribute to the greater welfare of our peoples.

With cordial greetings,

Alejandro Orfila
Secretary General of OAS

Board of the Cartagena Agreement (JUNAC)

Lima, Peru

On the occasion of the thirtieth anniversary of CEPAL I have pleasure in transmitting to you the warmest
congratulations of the Board of the Cartagena Agreement on the substantial contribution of the Commission to Latin American development.

Yours faithfully,

Luis Barandiaran
Acting Co-ordinator, JUNAC

SELA, Caracas, Venezuela

On behalf of the Permanent Secretariat of SELA I have pleasure in expressing to you and all the staff of CEPAL our sincerest congratulations on the occasion of the thirtieth anniversary of the Commission which is under your distinguished leadership: an organization which has made a fundamental contribution to the development efforts and process of integration of Latin America.

Our best wishes for the continued success of CEPAL in fulfilling its important functions.

Cordial greetings,

Jaime Moncayo García
Permanent Secretary, SELA

The preliminary mimeographed version of the Economic Survey of Latin America, 1977, is divided into four parts. In accordance with usual practice, Part One contains a general analysis of the evolution of the economy in Latin America as a whole during 1977, while Part Two contains individual studies of 26 countries of the region.

The other two parts are devoted to special studies. Part Three gives a detailed analysis of the economic policy of Ecuador during the expansionary phase of the oil industry, the impact of oil on the economy, its use to promote development, the adjustments and tensions which it has caused and its prospects. Lastly, Part Four contains two studies on international economic relations. In the first study, the changes and trends in world trade in the present decade are reviewed, with special attention to changes in the patterns of world exports and the role of the peripheral economies in it, while in the second study the trends and changes in investment by the transnational corporations in the peripheral countries and particularly in Latin America are analysed.

In considering the general trends of economic development in the region, the Survey notes that the moderately favourable trends observed in 1976 generally speaking continued into 1977. While economic activity again grew at a rate of around 4.5%, the external imbalance once more decreased and the intensity of inflation declined.

The evolution of the economy in 1977 differed in some respects from that of the previous year, however. Thus, the increase in the product—which as in 1974 and 1975 exceeded that of the industrialized countries in relative terms—took place despite the sharp drop in the growth rate of the Brazilian economy. Only in Paraguay, Chile, Venezuela and some Central American countries was the growth rate very much higher than the regional average. In the majority of these countries, this was due to specific circumstances rather than to any growth tendency which might be considered lasting. While in the Central American countries the exceptional boom in coffee exports was of decisive importance, in Chile and in Argentina the increase in production in 1977 mainly involved a recovery which more or less made up for earlier reverses.

In the external sector divergent trends continued to exist between the oil-exporting countries and rest of the region's economies, as was the case during the previous three years.

While the value of exports of goods by the latter once again grew very rapidly (23%), and the volume of their imports of goods became stabilized, imports by the former continued to increase much faster than their exports. As a result of these different trends, the deficit on current account of the non-oil-exporting countries dropped sharply for the second year running, while in the oil-exporting countries the current account closed with a deficit for the first time since 1973.

With regard to inflation, the regional picture was also very varied. While Argentina and Chile succeeded in substantially reducing the rates of their long and intensive inflationary processes, the rate of price increases dropped only slightly in Brazil and Mexico, and rose in Colombia. In all these countries, as also in Peru and Uruguay, the very high levels of inflation severely restricted possibilities of applying more expansive policies in 1977. These possibilities were also restricted in some of the countries as a result of the limitations imposed by the continued large-scale imbalances in their external sectors. In nearly all the smallest and most open economies of the region, moreover, the rate of inflation increased with the reversal of the declining trend observed in the growth rates of the prices of imports and exports in the previous two years.

It may therefore be seen that although the economy of Latin America had in 1977 partially recovered from the impact of the long and intensive recession of the industrialized countries and the exceptional increase in the price of petroleum, it continued to be affected by the consequences which these changes had on its evolution. Thus, although the rate of growth of economic activity was higher than in 1975, it was distinctly lower than the rate of the first five years of the decade; the average rate of inflation, even excluding the special cases of Argentina and Chile, was more than double the usual rate prior to the increase in oil prices in 1977; and lastly, although the deficit on the current account of the balance of payments was rather lower than in the two previous years, it was double the average for the period 1970 to 1973, while the external public debt had already risen to twice its 1973 level in 1976.


With some delay in publication, the revised edition of the Statistical Yearbook for Latin America, updated to 1975, has finally appeared: it contains information on population, national accounts, agriculture, industry,
transport, external trade, prices, balance of payments and social statistics.

In the previous version of the Yearbook, the series covered the years 1960 to 1972 in general. In the present edition, the years 1960 and 1965 to 1974 have been considered, where availability of information has permitted, and the period 1961-1964 has been included where differences occurred between the figures for those years and those published in the previous Yearbook.

The first part gives statistical series for Latin America (20 countries), the region as a whole (24 countries), and the various subregions: Latin American Free Trade Association, Andean Group, Central American Common Market and Caribbean Free Trade Association; while the second part gives the same series by countries.


The revised version of the Statistical Yearbook of Latin America, updated to 1978, has now been published. It contains data on population, national accounts, agriculture, industry, transport, external trade, prices, balance of payments and social statistics for the years 1960 and 1965 to 1976.

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This issue in the "Cuadernos de la CEPAL" series presents a revised version of the document of the same title (E/CEPAL/1027) which appeared in 1977 in mimeographed form and was summarized in issue N.° 3 of this Review, first semester 1977, p. 286.


This Cuaderno gives some of the most salient features of the agricultural sector in Latin America in the past 25 years in five chapters, which summarize the research carried out on agricultural production and supply, the sector's contribution to external trade (both in supply and demand), production resources and basic institutional aspects.

It is not easy to obtain an overall view of the changes in Latin American agriculture from the postwar period to the present time. In addition to the diversity of basic features, natural resources and types of production proper to each agro-ecological area, a complex network of cultural, economic and social factors have placed their own stamp on each area's agriculture. In this study, however, which covers a period of 25 years, an effort has been made to go beyond specific features and local aspects and examine the region on the basis of certain trends which would seem to make up a common process of change affecting agriculture in all the countries.

There are two aspects to which special attention is given in this paper. The first concerns the region's potential production resources, which, although they have obviously not changed in the last quarter century, have definitely improved in quantity and quality. Progress has been made both in the intensification of existing agricultural output and in the development of new areas of production in the great tropical, subtropical, arid and semi-arid regions of Latin America. This effort to make better use of the production resources has given rise to new and complex questions with regard to how this may be done, and its costs and benefits.

The second aspect stressed is the increased importance acquired as regards the behaviour of supply during the period by the national and international markets.

Although large sectors have remained marginalized from the market machinery, commercial production has been affected by price changes with the incorporation of new producers and new techniques. This situation, like the preceding one, involves progress but also unknown. As far as progress is concerned, the modern sector of agricultural activity is being becoming more competitive vis-a-vis other economic activities generally considered as being more profitable. The unknowns are part of a more complex process, interrelated with regional agriculture and the international economic situation, and must be resolved by adequate study of the evolution and prospects of the market. When several agricultural products are involved, the market must be supplemented by various forms of international coordination and co-operation which will minimize the effect of the fluctuations in the world economy on the food-producing countries.

Notes on the family as a socio-economic unit, by Carlos A. Borsotti, Series "Cuadernos de la CEPAL", N.° 22, Santiago, Chile, 1978, 56 pages.

The lack of research on the family and social change in Latin America is all too well known, although there are many studies on different phenomena or aspects relating to the family unit, including age at marriage, real and ideal number of children, use of contraceptives, abortion, number of unions, income, housing, etc. Information exists on all these aspects according to area of residence (rural or urban) and the socio-economic
stratum of the persons, but these studies, which are isolated, deal with individual points, and are made in societies which are different from each other and at different stages of development, do not represent the reality of the family unit as a social grouping of which these phenomena or aspects can only constitute partial expressions. These are precisely some of the problems analysed in the first part of this study.

The next two parts are devoted to describing the family as a unitary object in terms of the economic dimension, from which it emerges as a unit whose functioning gives rise to the daily and generational reproduction of the agents of society, and in certain cases, the production of goods and services. This makes it necessary to go more thoroughly into the concepts of domestic work and reproduction, and distinguish them from those of social and productive work.

Once the object has been generically constituted and typified in six main types of family unit, it becomes clear that in order to determine the links between the family and society it is necessary to specify the social context, the location of the families in this context and also a theory of social change.

This is the theme of part four of this article, in which on the basis of the hypothesis that family types usually vary according to the class situations existing in the society, specific hypotheses are analysed with regard to family life cycles, living strategies and the socio-organizational models in force to meet social demands. The reciprocal conditioning of society and family dynamics is also analysed here, together with the way in which the structure of the latter can lead to its inclusion in certain social processes or its exclusion from them, and to the support, apathy or opposition of its members with regard to specific policies. The relation between the types of family existing in a society and the development style prevailing in it is also examined in similar terms.

In part five, on the basis of the information available, three types of family unit are presented according to the conceptual and methodological notions expounded previously. They are given only as an illustration, since their choice was conditioned by the availability of information.

This paper does not lead to any final conclusions, although it does give expression to certain problems, which is why the last part presents some considerations on topics which at the present time are the object of generalized discussion, such as the quality of life, critical poverty, the situation of women, minors and young people, planning and social policies.


The purpose of this Cuaderno is to review some problems of the organization and information to appraise economic and social development.

The subject is dealt with from three different standpoints: the use of systematic conceptions as a frame of reference for statistical plans, the search for a synthetic indicator of the results of the development process, and the definition of a group of indicators which will assist in appraising the different facets or areas of interest in the process.

The first chapter describes the advantages of using the systems of national accounts and social and demographic statistics recommended by the United Nations as a guide for the compilation of basic statistics, and examines their relevance to the typical problems of the Latin American countries.

The second chapter centres on the already traditional discussion of the advantages and defects of using the products as the only aggregate and synthetic indicator representative of the progress of development, and sums up the arguments recently aired on its scope, content, virtues and defects.

The last chapter concerns the form in which the data are presented for appraisal. Although it is the development style and the conjunctural characteristics of each moment of a country's history which will finally characterize the data needed for the appraisal, it is considered desirable for the analysis to include a group of global indicators. This group has been selected on the basis of recent experience of the countries and the United Nations, particularly the latter, in tasks connected with the appraisal of the International Development Strategy.


This statistical Cuaderno contains the historical series of the gross domestic product at factor cost for the individual countries of Latin America and the region as a whole, at constant 1970 prices and by type of economic activity.

In this document, the Division of Statistics and Quantitative Analysis of CEPAL gives users a systematic compilation of the statistical data available on this topic in the countries of the region, thus helping to assemble data dispersed in different local sources in a single publication with a standard presentation. The presentation of the data in the most homogeneous form possible as regards definition, coverage and valuation allows comparisons to be made and facilitates the study of the economic evolution of these countries over lengthy periods of time.

Earlier, CEPAL used for its studies historical series of the product expressed at constant 1960 prices, but the present document is aimed at disseminating new harmonized, updated and systematized series at 1970 prices, this being the new base year adopted.
The preparation of regional tables by the application of parity exchange rates is a contribution to regional and subregional analyses, since these tables enable the figures of the evolution of the product to be incorporated.

Part one presents the necessary conceptual and methodological ideas, while part two contains the regional tables for the total and per capita product and the aggregate value of the main economic sectors for the period 1939 to 1976, expressed in dollars at 1970 prices.

Part three contains country tables. An endeavour has been made to include in them the series for the longest possible period, according to the availability of data for each country. The figures in these tables are expressed in the respective national currencies.

Lastly, the annex contains series of the gross domestic product at factor cost by type of economic activity, at constant 1970 prices, for Barbados, Guyana, Jamaica and Trinidad and Tobago.


The formation of the Archivo de Datos en Encuestas de Hogares (ADEH) (household surveys data file) in CEPAL has permitted the systematic accumulation of data from the household surveys, including family budget surveys, carried out for different purposes in the region.

The numerous demands for information on the structure of consumption of different income groups for the research and projection work carried out in CEPAL and other organizations, both regional and national, have shown the desirability of collecting as systematically and homogeneously as possible, in a single document, the available statistics on the structure of household consumption expenditure, according to the purpose of the expenditure and income groups, even where the results of each of the surveys have been published at the time by the organization which carried them out. A systematization of this type had already been attempted with the surveys of the ECIEL programme (Joint Studies on Latin American Economic Integration) for the countries of the Andean Pact, from which the present Cuaderno has profited considerably.

The family budget surveys available in the region are those carried out in 1967/1970 under the ECIEL programme, those taken systematically by some of the countries of the region as part of their continuing household survey programme, and some surveys made as part of ad hoc research. The last-mentioned include a series of part-coverage surveys or surveys of more doubtful reliability, which have not been included in this document.

The family budget surveys selected were those with the widest coverage and the greatest relative reliability available in each country; some therefore cover all urban areas, but the majority only cover the metropolitan area of the capital city or the main cities of the country.

Even when the basic data are not significantly affected by biases, it is difficult to deduce immediately from the tables presented the implicit patterns of consumption in terms of income, since the successive groups of households do not generally correspond to relatively similar income intervals. This is even more so as regards differences between countries, in view of the differences in income intervals for ordinal groups of households of equivalent location and magnitude. Despite all these cautionary notes and limitations, the consumption statistics presented here given the most complete picture which can be obtained of information with this level of aggregation on how the family budget is redistributed as income increases.


The main purpose of this document is to present the officials of Latin American statistical offices, and especially those responsible for census operations, with the theoretical knowledge and experience accumulated in the region by experts from different international organizations in the field of population censuses, so as to contribute to the difficult adjustment between the heterogeneous situation of the countries and the necessary uniformity of the recommendations made by these organizations.

It is difficult to reconstruct the history of population and social changes prior to 1950 on the basis of the census data published by the Latin American countries. Although it is true that some of the countries were already taking censuses before Independence, this tradition in census matters has not been paralleled by a continuous and systematic effort, and up to the year in question census work did not follow a specific periodicity nor a standard content from one census to another.

As from 1950, the situation changes. Through the Programme for the 1950 Census of the Americas (COTA-1950), the Inter-American Statistical Institute (IASI) gave a strong impulse to these activities, which were expanded and improved in the subsequent ten-yearly programmes.

In the 1970 censuses, this impulse was reinforced by the greater participation and collaboration of the Economic Commission for Latin America (CEPAL) and the Latin American Demographic Centre (CELADE) with IASI and the national statistical offices, and this consolidated the tendency to foster innovations in the investigation of certain topics so as to incorporate the conclusions of the centres specializing in the demograph-
ic and social analysis of the region. Particular stress was also laid on achieving greater homogeneity in the content, definitions and procedures of the census so as to facilitate the comparability of results.

Along these lines, and with approximately three years to go before the 1980 population censuses are taken, the Division of Statistics and Quantitative Analysis of CEPAL has endeavoured to collect together the experience the region has gained in census matters, and on this basis to suggest guidelines for the forthcoming censuses, taking into account the special features of the demographic and social situation of the countries, the progress made in the study of each of the topics contained in the census, and the conclusions reached by the experts in the area of the organization of census operations.
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